

A world of innovation

Rentokil Initial plc
Annual Report 2019

Company Number 05393279

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About us

Protecting people. Enhancing lives.

At Rentokil Initial we protect people and enhance lives around the world from the dangers of pest-borne disease and the risks of poor hygiene. We enhance lives with services that protect the health and wellbeing of people, and the reputation of our customers' brands.

Strategic Report




We performed strongly in 2019 with our highest level of organic growth in 15 years, driven by our growing presence in higher growth markets, enhanced customer retention and our strong Innovation programme.


Andy Ransom
Chief Executive

- 2 Our Business at a Glance
- 4 Q&A with Andy Ransom, Chief Executive
- 6 Our 'Big Six' Challenges
- 8 Reasons to Invest

Our Lumnia fly control unit is the world's first to use energy efficient LEDs to transmit UV light in the capture of flies.

 Find out more on page 24

customer and regulatory requirements are leading to an increasing use of innovative, non-toxic solutions in pest control.


 Find out more on page 10

- 12 Key Performance Indicators
 - 12 Colleagues
 - 13 Customers
 - 14 Shareholders

26 Pest Control

- 26 Industry, market and customers
- 27 Global growth drivers
- 27 2019 performance review
- 28 Strategic priorities


We are digitally remastering our frontline service provision to enhance customer service and productivity.

 Find out more on page 32

34 Hygiene

- 34 Industry, market and customers
- 35 Global growth drivers
- 36 Strategic priorities
- 37 2019 performance review

myLearning is Rentokil's unique online, e-learning Pest Awareness training platform accessible via PC, tablet and smartphone.


 Find out more on page 16

- 18 Our Business Model
- 20 Our Culture
- 22 Our Stakeholders

39 Protect & Enhance

- 39 Introduction
- 39 2019 performance review
- 41 Spotlight on Ambius

We are proud to work with collaborative partners who bring specialist expertise to our innovation projects.

 Find out more on page 42


44 Responsible Business


- 44 Key sustainability priority areas
- 52 Section 172(1) statement
- 53 Governance, trust and transparency
- 54 Non-financial information statement

55 Risks and Uncertainties

60 Viability Statement

We are using unclaimed dividends to launch a fund – called Rentokil Initial Cares – to support good causes around the world.

 Find out more on page 50

 The Financial Review on pages 118 to 121 forms part of the Strategic Report

We are using QR codes throughout this document for you to use via your smartphone. Just scan the code to access richer video content.

Corporate Governance



The business has performed well through the clarity of its strategic execution and the enthusiasm and delivery focus of our colleagues. The Board remains highly engaged in all aspects of the business and will continue to work with the leadership team to help ensure future success for all our stakeholders.

Richard Solomons
Chairman

- 62 Chairman's Introduction to Governance
- 64 Board of Directors
- 66 Executive Leadership Team
- 68 Corporate Governance Report
- 81 Audit Committee Report
- 88 Nomination Committee Report
- 92 Directors' Remuneration Report
- 112 Independent Auditor's Report

Financial Statements



We've had another very good year in 2019, with our financial results once again ahead of our three medium-term targets of revenue, profit and cash.

Jeremy Townsend
Chief Financial Officer

- 118 Financial Review
- 122 Consolidated Statement of Profit or Loss and Other Comprehensive Income
- 123 Consolidated Balance Sheet
- 124 Consolidated Statement of Changes in Equity
- 125 Consolidated Cash Flow Statement
- 126 Notes to the Financial Statements
- 165 Related Undertakings
- 171 Five-Year Summary
- 172 Parent Company Balance Sheet
- 173 Parent Company Statement of Changes in Equity
- 174 Notes to the Parent Company Accounts

Other Information

- 179 Directors' Report
- 182 Additional Shareholder Information
- 184 Glossary

Financial performance

Ongoing Revenue (at CER)

£2,644.5m +8.6%

Organic Revenue growth

+4.5% (2018: 3.7%)

Revenue (at AER)

£2,714.4m +9.8%

Ongoing Operating Profit (at CER)

£365.5m +10.5%

Profit before tax (at AER)

£338.5m +£452.6m

Free Cash Flow (at AER)

£250.7m 98.6%
Free Cash Flow conversion

2019 full-year dividend

5.15p +15.2%

KPIs, see more on page 12

Alternative Performance Measures

This Annual Report includes certain financial performance measures which are not GAAP measures as defined under International Financial Reporting Standards (IFRS). These include Ongoing Revenue, Ongoing Operating Profit, Adjusted Profit Before Tax and Free Cash Flow. Management believes these measures provide valuable additional information for users of the financial statements in order to understand the underlying trading performance. Ongoing Revenue and Ongoing Operating Profit measures represent the performance of the continuing operations of the Group (including acquisitions) after removing the effect of disposed or closed businesses. Ongoing Profit and Adjusted Profit Before Tax exclude certain items that could distort the underlying trading performance. Ongoing Revenue and Ongoing Operating Profit are presented at CER unless otherwise stated. An explanation of the measures used along with reconciliation to the nearest IFRS measures is provided in Section E – Alternative Performance Measures on pages 160 to 164.

Our Business at a Glance

Global reach. Local focus.

Rentokil Initial is a global leader in the provision of route-based services which protect people and enhance lives, everywhere. We operate in 90 of the world's 100 leading cities – from Los Angeles to Amsterdam, and Singapore to Auckland. Our core services are pest control and hygiene and we offer a range of smaller specialist services including plants, property care and workwear. We are a multi-local business operating in 81 countries around the world, employing around 43,000 people in 2019.



Pest Control



Hygiene



Protect & Enhance

Rentokil Pest Control is the world's leading international commercial pest control service provider, offering the highest levels of risk management, reassurance and responsiveness to customers.

Operating in 81 countries.

Ongoing Revenue (CER)

64%
of Group
Ongoing
Revenue

£1,700.1m +10.8%

Find out more on page 26

Initial Hygiene is the world's leading commercial hygiene services provider offering services including the provision and maintenance of products such as air fresheners, sanitisers, feminine hygiene units, hand dryers, paper and linen towel dispensers, soap dispensers and floor protection mats.

Operating in 46 countries.

Ongoing Revenue (CER)

21%
of Group
Ongoing
Revenue

£546.8m +5.8%

Find out more on page 34

Rentokil Initial offers a range of other route-based services to meet customer needs in plants, workwear, property care, medical and specialist hygiene services.

Operates across four businesses.

Ongoing Revenue (CER)

15%
of Group
Ongoing
Revenue

£397.6m +3.5%

Find out more on page 39

Revenue figures above and overleaf are at constant exchange rates (CER) and represent Ongoing Revenue from continuing operations and exclude revenue from businesses disposed and closed but include revenue from acquisitions.

Our purpose

Our purpose is to protect people and enhance lives, everywhere. We protect people from the dangers of pest-borne disease and the risks of poor hygiene. We enhance lives with services that protect the health and wellbeing of people and the reputation of our customers' brands.

Rising standards of public health, stricter food safety regulation and the need to comply with workplace safety regulations are driving demand for our service expertise.

As a business we also create value for our shareholders through our economic success.

Our culture

Our culture is characterised as customer focused, commercial, diverse, down to earth and innovative. We have small teams of highly engaged colleagues, trained and incentivised to deliver world-class service. Our business is relentlessly focused from frontline to boardroom on how to keep improving, innovating and executing our strategy, whether through learning and development, the roll-out of innovations or the introduction of industry-leading digital tools.

Find out more on page 20

Our values

Three core things underpin everything we do.

Service

We are passionate about delivering excellent customer service to every customer, on time and as promised.

Relationships

We value long-lasting relationships with our colleagues and customers and keep them informed about changes that affect them. We listen and act upon people's needs and concerns and are honest and straightforward in our conversations with them.

Teamwork

Our business is all about great teamwork – getting it right, for our colleagues, customers and other stakeholders.

Revenue by region

c.90%

service coverage
of global GDP

1,800+

local service teams

81

countries of
operation, including
new market entries
into Uruguay, Jordan
and Sri Lanka

**90 out
of 100**

of the world's leading
cities covered by
our operations

North America

£1,040.3m

+11.4%

Europe (inc.
Latin America)

£715.0m

+7.1%

UK &
Rest of World

£464.8m

+6.3%

Asia

£234.4m

+11.1%

Pacific

£190.0m

+2.6%

£m	North America	Europe (inc. Latin America)	UK & Rest of World	Asia	Pacific	Total
Pest Control	949.0	288.3	217.6	161.0	84.2	1,700.1
Hygiene	–	192.7	191.5	71.3	91.3	546.8
Protect & Enhance	91.3	234.0	55.7	2.1	14.5	397.6
Total	1,040.3	715.0	464.8	234.4	190.0	2,644.5

Our RIGHT WAY plan

Our **RIGHT WAY** plan divides our business into five geographic regions and three core categories, all operating on a low-cost, single-country operating structure. Since 2014, we have consistently implemented an effective strategy at pace and this has delivered consistent progress against our financial targets.

We are a strong and focused business, operating in higher growth markets, with improving levels of organic growth, reduced capital intensity, high levels of cash generation and a proven and successful M&A capability.

Q&A with Andy Ransom, Chief Executive

Innovation is embedded within our culture



Innovation is part of our culture. It's not just a function, nor just product development, but a way of thinking. All our colleagues are encouraged and empowered to improve and enhance our business performance by innovating. At Rentokil Initial, it's everyone's responsibility.

Andy Ransom
Chief Executive

Q The Company has performed very well again in 2019. What are your highlights for the year?

A The first highlight, a topic always first on our agenda, was our health and safety performance. We recorded our best ever Lost Time Accidents performance at 0.53, and also achieved our five-year target of reducing our emissions by 20% a full year early.

Next, our Organic Revenue growth. At 4.5%, it is the highest rate of annual growth we have seen in 15 years. It reflects good progress in all regions from all business lines, not just in Pest Control. Hygiene continues to perform well, delivering 4.3% Organic Revenue growth in 2019, considerably above our expectations of 2% to 3%. Protect & Enhance also delivered a much improved performance on 2018, up 3.2% Organic Revenue growth. France Workwear, Ambius and Property Care all performed more strongly. At 10.5%, Ongoing Operating Profit delivery this year is above our medium-term target of 10.0%. Finally, we delivered Free Cash Flow of £250.7m; at 98.6%, conversion is considerably above our 90% target.

M&A is again a highlight. We said we would spend in excess of £250m. We spent £316.5m on 41 deals – 30 of which are in Pest Control and nearly half of those in North America. The pipeline looks strong and we are confident of more progress in 2020. All of this is

underpinned once again by good progress across our Employer of Choice people agenda.

Not everything went our way, with disappointing performance in our businesses in India and Singapore. We had issues with fumigation in Australia and Malaysia, which have been addressed but remain a priority focus. Overall, however, the Company is performing well and set to continue to progress in 2020.

Q Why is innovation so important to Rentokil Initial and does it really make a difference?

A It's about three things: a better experience for our customers, a more effective outcome, or a solution at a lower cost. We want to identify new solutions for existing pest control problems or hygiene needs, of course. But we also want to find ways to address new or emerging problems, such as pest migration or air quality, or solve those that no one has yet managed to, such as offering truly environmentally sustainable services.

As well as maintaining our fantastic quality of service, we also need to differentiate our products and services from our competitors' so that customers will come to us knowing we offer the best solution in the market for their needs, whether in pest control, hygiene or our other businesses. This could mean more targeted pesticides or using less or safer chemicals. It could also mean connected

devices to identify and start resolving a problem earlier, or inventing more effective solutions such as using LED lights in our electronic fly traps.

Does it really make a difference? Yes, absolutely. Our customers, especially the largest, tell us that innovation is very important to them. In areas such as environmentally friendly solutions it is something they are asking us for more and more. We have been working hard at this for years now and already lead our sectors in delivery, but this remains a key opportunity.


B Find out more about how we innovate at Rentokil in the case studies on pages 10, 16, 24, 32, 42 and 50

Q What sets Rentokil Initial apart from other industry players who also claim to be highly innovative?

A At Rentokil Initial, innovation is part of our culture. It's not just a function, nor just product development. Innovation is a way of thinking and all our colleagues are encouraged and empowered to improve customer service and enhance our business performance by innovating. At Rentokil Initial, it's everyone's responsibility. If any of us see an opportunity to change the way our job is done that results in a better service for customers and/or a lower cost for us to operate, then we are all encouraged and incentivised to do that.

Second, we have a unique dedicated innovation centre in the UK – called the Power Centre – with talented PhD scientists applying great expertise in rodent behaviour, insect behaviour, in IT and design etc. We use all this expertise to prioritise work on the projects we believe will be the most effective and successful. We select them based on what our customers and frontline technicians tell us they need – it's very much a model of customer-driven pull, not central, top-down push.


A culture of performance and innovation across our global footprint, our unique research capabilities applied to real customer needs, and our understanding and readiness to deploy new technologies are what, I believe, set us apart from our competitors.

 Find out more about our culture on page 20

Q Isn't there a risk that advances in technological innovation could make much of what your technicians do redundant?

A With change comes both risk and opportunity. It's our belief at Rentokil Initial that we either innovate or die. We considered whether we should innovate with the intention of leading our industry or whether we should become a fast follower and watch how others innovate and copy them. Not innovating at all is simply not an option. Our conviction is that if we innovate on the right things and in the right way we will continue to lead our industries. We want to innovate where the issues are most complex and challenging, often in the most regulated parts of the industry. This represents a significant opportunity to grow our business and to grow it profitably.

There is an important place for technology and the efficiencies and insights it can bring but we are confident our core businesses will always need skilled, expert people to engage with our customers, understand their needs and find the best ways to meet them.

 Find out more about digital innovation on page 32

Q What about innovation and the environment? Does increasing regulation get in the way of what you're trying to achieve?

A Regulation can be our friend at Rentokil Initial. We operate to the highest ethical and legal standards so when new regulations are brought in, we treat that as an opportunity.

We respond to regulatory standards better and more quickly than most of our competitors, which is an advantage for our customers and our shareholders, as well as our wider stakeholders.


82%

of colleagues agree that our company is innovative



From digital pest control to non-toxic solutions, innovation is at the core of our business.

When it comes to the environment, we are very much at the forefront of creating new greener, cleaner and safer solutions and ways of working that can be at least as effective as current, traditional methods. They are often more efficient for us as well – after all, our 20% reduction in emissions since 2016, for example, is also a 20% reduction in our energy costs, over 80% of which are vehicle fuel, worth over £8m a year. As the leading pest control company in the world, we are therefore embracing this drive for greater sustainability as not only the right thing to do for the planet but also the best thing for our business.


 Find out more about our approach to running a responsible business on page 44

Q In which other ways do you innovate across the Group?

A Rentokil Initial was founded on research-led innovation and this is therefore part of our cultural heritage, going back to a product developed to control an infestation of deathwatch beetle in the Houses of Parliament back in 1920. We have been innovating to service customer needs ever since. I've said how I believe innovation is everyone's job here but let me show you what our people say themselves.

This year we conducted our Your Voice Counts survey of all colleagues. We had a remarkable 90% response rate and, according to colleagues right across our global business, the highest scores were given to innovation, alongside safety culture and clarity of strategy and direction.

Here are just six examples out of many to show how we innovate. We have partnered with Cool Earth to protect almost 1,000 acres of rainforest, preventing the release of carbon into the atmosphere equivalent to our annual footprint. We repurposed unclaimed dividends and shares to create the innovative Rentokil Initial Cares charitable fund. We are leading users of Google apps, including Hangouts calls instead of travelling to meetings and G+ social media to share technical expertise in the field via smartphones. We use the Internet of Things, big data analysis and artificial intelligence to understand pest trends and route our frontline schedules in real time. We created targeted, measurable development and coaching tools for line managers with our Line Manager Index. Finally, we have developed our own OFSTED-approved apprenticeship programme to invest in and create meaningful careers for new colleagues.

 Find out more about our work with Cool Earth and Rentokil Initial Cares on page 50

Andy Ransom
Chief Executive

Our 'Big Six' Challenges

Our 'big six' challenges...

Like all companies, we regularly assess our strengths and weaknesses and examine closely the opportunities and threats to our business going forward. In this section, we give a brief overview of our 'big six' challenges, with links to further details and financial metrics.

1

Employer of Choice/retention

Our people are our biggest source of competitive advantage and the key to profitable growth. Our challenge is to be an Employer of Choice to drive further improvements in colleague retention across the Group. By retaining and investing in our people, we know we will also improve retention of our customers.

What we said we'd do in last year's annual report

- ➊ Attract and retain talent in competitive labour markets; improve colleague engagement, enablement and retention; focus on development and career progression to build strong succession pipelines; maintain our commitment to diversity; and develop talent from all backgrounds.

What we've done this year

- ➊ We have made significant improvements in colleague retention and engagement and enablement. All are now ahead of the High Performance norm of 75%.
- ➋ The number of colleagues using our U+ online university to complete training modules, both in branch and in the field, has risen by over 30% this year.
- ➌ For the third year in a row, there is no material gender pay gap within the UK and female representation across all work levels is rising.
- ➍ The Company was recognised in 2019 by Management Today as Britain's Most Admired Company for Diversity and Inclusion and was ranked 9th in the Hampton Alexander Review 2019 report for FTSE 100 Board gender diversity.

Priorities for 2020

- ➊ Continue our progress on attracting, developing and retaining the best people around the world from the widest possible pool of talent; focus on career development and progression; invest in the capability of our managers in order to enhance their coaching and development skills; and maintain our commitment to diversity and inclusion. This means gender but also focusing on other elements of diversity such as ethnicity and millennials.

Find out more on page 46

2

Driving Organic Revenue growth in Pest Control

Pest Control grew organically by 4.9% in 2019. Our challenge is to drive sustainably higher rates of organic growth across the business, in particular in North America, where we have set targets for revenue (\$1.5bn) and margin (18%) by the end of 2021.

What we said we'd do in last year's annual report

- ➊ Grow revenue and margin in North America; leverage our exposure to Emerging markets; deploy innovative products and services to enhance customer service, and support upsell and retention; increase digitalisation of services and productivity tools; develop our online platform to drive new business; and maximise our capability in global accounts.

What we've done this year

- ➊ We have delivered 4.5% Organic Revenue growth in North America and margin of 14.2%; and 4.9% Organic Revenue growth in Emerging markets. Revenue from innovations continues to be significant, for example, with sales from Lumnia, the world's first LED fly trap, rising by 32% and the number of PestConnect devices installed across our portfolio growing by 56%.
- ➋ Currently 96% of our commercial customers use the myRentokil online portal and visits to our websites increased by 30% to 27.4 million.
- ➌ Global Accounts increased revenue performance by 25%, reflecting new contracts and additional business from existing customers.

Priorities for 2020

- ➊ Target higher-growth pest opportunities (notably mosquitoes and bed bugs); continue to deploy product and service innovations and digital applications; utilise our brand and digital marketing to raise market presence; and grow global accounts.

Find out more on page 28

3

Building our Hygiene business

Hygiene has had a very good year, growing organically by 4.3%. Our challenge is to build the business into a second powerhouse to Pest Control by driving growth and yield management further and expanding into higher-growth business lines such as premium scenting and wellbeing.

What we said we'd do in last year's annual report

- ➊ Build greater postcode density through targeted selling and acquisitions; enhance product penetration by encouraging customer take-up of multiple service lines, and new product and service differentiation; develop wellbeing propositions in the global air care market; and review opportunities in route-based service and product extensions.

What we've done this year

- ➊ We have acquired eight new Hygiene businesses, building a strong presence in Emerging markets including Indonesia, Malaysia, Chile and Colombia.
- ➋ We launched a range of environmentally friendly hand soaps and new fragrances within our air care range. We are in late-stage development with our first range of digital washroom products, including a connected soap dispenser to track customer usage. We are piloting other product and service extensions including a first aid service solution involving the provision of first aid kits, defibrillators and eye wash solutions to customers.

Priorities for 2020

- ➊ Make acquisitions to build density; deliver excellent customer service to drive retention and upsell; deliver innovative products and services to drive range and volume in customer premises; and broaden our portfolio to include air, first aid and Ambius (wellbeing).

Find out more on page 36

4

M&A execution

We have had another very successful year of M&A in 2019. Our challenge is to maintain a strong pipeline of high-quality opportunities in an ever-more competitive market, and to integrate acquisitions quickly and effectively.

What we said we'd do in last year's annual report

- Continue to identify, purchase and successfully integrate high-quality bolt-on targets, particularly pest control businesses in Growth and Emerging markets, and appropriate new market entries. Continue to assess the merits of larger acquisitions. Maintain effective governance and review processes to control risk, build M&A capability and ensure rigorous returns from investment.

What we've done this year

- We acquired 41 businesses with annualised revenues of £137m (30 Pest Control, eight Hygiene, three Ambius).
- We completed 16 deals in key North America market with revenues of c.£101m, including Florida Pest Control, a top 20 pest control business with annualised revenues of c.\$66m (c.£50m).
- First-time entry in Uruguay, Jordan and Sri Lanka.
- Our recent investment in M&A continues to perform at or above our required hurdle rates.

Our priorities for 2020 and beyond

- Continue to execute a differentiated and disciplined approach to capital investment and M&A, with clear IRR hurdles by business line. Continue to seek acquisitions in higher-growth pest and hygiene markets. Our pipeline of M&A prospects remains strong and we would expect to spend in the region of £250m in 2020.

Find out more on pages **28, 31, 36** and **38**

5

Creating value through product and service innovations and digital applications

Innovation is a core component of growth for the business. Our challenge is to deploy product and service innovations and digital applications to enhance customer service, support upsell and maximise customer retention.

What we said we'd do in last year's annual report

- Continue to harness digital opportunities, using connected products and extranet portals; deploy low-cost mobile devices and apps to improve service, productivity and safety, and identify opportunities to automate back-office functions. In innovation, expand Lumnia, roll out RapidPro and expand mosquito solutions.

What we've done this year

- We expanded our Lumnia insect light trap product range to include Lumnia Colour and Lumnia Slim. Developed three new digital rodent sensing devices and introduced a new user interface for myRentokil which expands our reporting capability.
- We introduced Command Centre, providing our customer-facing teams with unrivalled data and insights. In Hygiene, acquired further connected device capability via Rapid Washrooms, integrating it in readiness for the refreshed range being launched in 2020.
- We added a new range of soaps, including an environmentally friendly option.

Priorities for 2020 and beyond

- Develop products targeted at key sectors and with potential for non-toxic solutions (i.e. Multi Radar rodent unit); launch Eradico, our new Global Bait Box; further expand Lumnia range; and develop digital solutions for crawling and flying insects (i.e. Bed Bug Connect and Crawling Insect Connect). Evolve digital activity leveraging current and new technology (including myRentokil, PestConnect and Command Centre). Develop and launch new hygiene solutions, including our Rapid Smart washroom solution alongside new air enhancement and air purification solutions.

Find out more on pages **30 to 33**

6

NEW

Managing a responsible business

While not a new topic for us, we are for the first time in this Annual Report introducing responsibility as a sixth big challenge. Our challenge is to ensure that colleagues have safe and fulfilling work lives, create a diverse and engaging workplace, support customers by developing and delivering products and services responsibly, support communities and benefit the environment by acting in the most effective manner.

What we've done this year

- We delivered a 16% improvement in Lost Time Accidents and 26% reduction in Working Days Lost, making 2019 our safest year on record.
- We reduced our carbon emissions per £m revenue by a further 3.7%.
- We achieved our five-year target for an emissions intensity reduction of 20% – one year ahead of target.
- Our Lumnia range was awarded The Planet Mark for carbon emissions reduction of 62% versus traditional units.
- We introduced a new environment plan with seven work streams including vehicles, property, non-toxic products and waste.
- We set a new long-term ambition to achieve net zero carbon emissions ahead of the UK Government's 2050 target.
- We were awarded the title of Britain's Best Workplace in the private sector by the world's largest job site, Indeed.

Priorities for 2020

- Maintain our world-class safety performance; build upon the success of our Employer of Choice programme; begin to execute our global environment plan across seven work streams; extend our commitment to electric vehicles; support the work of Cool Earth to prevent deforestation; and continue to implement appropriate policies, programmes and initiatives designed to promote diversity at all levels of the organisation.

Find out more on page **44**

Reasons to Invest




We believe that Rentokil Initial represents a compelling, compounding growth opportunity for investors

Rentokil Initial plc is a strong, global business with leading positions in structural growth markets. We see excellent opportunities to consolidate our positions in existing markets, enter new markets and lead the industry through differentiated investment into product and service innovation and disciplined and accretive M&A. Our strategy, culture of outperformance and consistent business model allows us to deliver strong and sustainable value for our shareholders. We set out our principal reasons to invest below.

1

We are a leader in our chosen, structural growth markets across three core categories, generating strong and sustainable levels of organic growth and high returns. Rentokil is the world's leading international commercial pest control business and our principal engine for growth. We are the brand leader in the industry and believe we possess unrivalled technical expertise. Initial is the global leader in commercial hygiene services with a focus on service quality to grow market share and drive management and back office synergies with other business lines.



Find out more:

-  Pest Control business on pages **26 to 31**
-  Hygiene business on pages **34 to 38**
-  Protect & Enhance businesses on pages **39 to 41**

2

We are focused on being an Employer of Choice with a unique culture and business model supporting and rewarding sustainable growth. We rely on the commitment and ability of our colleagues to deliver the highest levels of service. At the very heart of a great customer experience are passionate colleagues, so we strive to be an Employer of Choice, engaging and investing in our colleagues, recognising and rewarding effort, being open to talent from diverse backgrounds and offering great career progression.



Find out more:

-  Culture on pages **20 and 21**
-  Our responsible business approach and how we measure it on pages **44 to 54**

3

We have a strong track record of revenue and profit growth, generating high returns, strong cash flow and a strong credit rating. Since February 2014, we have implemented an effective and consistent strategy – called our **RIGHT WAY** plan – at pace and this strategy has delivered consistent progress against our financial and growth targets.

Find out more:

-  KPIs and their link to strategy on pages **12 to 15**
-  Financial Review on pages **118 to 121**

4

We have a virtuous circle business model which consistently reinvests and compounds our growth. It is predicated on delivering growth organically and through targeted M&A. This leads to increased density which is directly correlated to improved gross margins. The consistency of our performance allows reinvestment in our business. Combined with our low-cost, resilient operating model, this drives strong profitable growth and sustainable Free Cash Flow, which we deploy into our financially disciplined M&A programme and operational investment, and into maintaining our progressive dividend policy.

Find out more:

- 📖 Our Business Model on pages **18** and **19**

5

We have a fundamental understanding of density to consolidate our positions in existing markets and drive margins. Our investment and margin-based sales incentives for colleagues prioritise increasing route density through Organic Revenue growth with the most profitable customers and bolt-on acquisitions.

Find out more:

- 📖 Acquisitions in Pest Control on page **31** and in Hygiene on page **38**

6

We see considerable opportunities for broader-based growth as we enter new markets, drive innovation in product and service innovation and deploy digital applications.

Find out more:

- 📖 Global growth drivers for Pest Control on page **27** and Hygiene on page **35**
- 📖 Innovation case studies on pages **10, 16, 24, 32** and **42**

NON-TOXIC
INNOVATION

**Say hello to
cockroaches'
worst
nightmare**

It may look pretty sinister, but this microscopic image of a conidial fungus spore is changing the face of bio-pesticides.

This new entomopathogenic fungi, developed by our Global R&D Centre, uses fungal spores that attach to the external body surface of cockroaches and then germinate and bore through the outer shell to reach the body cavity, multiplying and eventually killing the insect.

Unlike traditional chemicals, pests cannot develop resistance to spores. This means that we are able to get closer to solving a long-standing problem with insect pests learning to adapt to chemicals and pass on resistant genes. It's a great example of how innovative, chemical-free solutions are being developed that combine higher levels of efficacy with reduced environmental impact.

Find out more at rentokil-initial.com

360m

The number of years cockroaches have been in existence. They are believed to pre-date dinosaurs

22+

known human pathogens are transmitted by cockroaches

200+

known species of cockroaches, the most common being German and American cockroaches



Stringent legislation regulating the use and development of biocidal products and consumer concerns over the effects of pesticide overuse on the environment are driving the creation of safer, greener and cleaner non-tox solutions.

Mike Wood
Head of Innovation
& Field Support



This is an exciting time for innovation because significant technological advances are enabling us to develop non-toxic solutions that are more targeted and effective than current chemical solutions.

Sophie Thorogood
Group Entomologist

Key Performance Indicators

●●● Very strong progress ●●○ Strong progress ●○○ Good progress ● Further work required ■ Disappointing progress

Colleagues

Ensuring everyone goes home safe

Lost Time Accident (LTA) rate

●●●

0.53

16% improvement on 2018

Working Days Lost (WDL) rate

●●●

10.99

26% improvement on 2018

Link to strategy

- ① As a service organisation, our people make our Company what it is.
- ② Our priority is ensuring everyone goes home safe.
- ③ Health and safety is the first agenda item in all senior management meetings (including Executive Leadership Team and Board).

Link to remuneration

- ② Both LTA and WDL rates are part of the personal objectives of the Chief Executive and impact the level of annual bonus achieved.

LTA rate defined as number of Lost Time Accidents per 100,000 standard working hours.

WDL rate defined as number of Working Days Lost as a result of LTAs per 100,000 standard working hours.

Commentary on performance

- ① 2019 has been our best year on record, achieving all-time low rates of 0.53 for LTA (16% lower than 2018) and 10.99 for WDL (26% lower than 2018). All our regional operations, with the exception of Europe, have LTA rates at world-class levels (<1.0). Our best performance was in our largest region, North America.
- ② In May 2019, we won the prestigious award for International Risk Initiative of the Year by the International Institute for Risk and Safety Management, for the implementation of our SHE Golden Rules programme across 39,000 colleagues in more than 75 countries. In addition, our UK business was awarded a gold award from the Royal Society for the Prevention of

Accidents for the second year running. This award recognised our excellent health and safety capability and performance.

- ③ In the year, we implemented a new SHE Golden Rule on electrical safety to address emerging risks that led to two major incidents, one fatal, in 2018. An awareness campaign and implementation of new safer working practices around high voltage areas were successfully rolled out globally.
- ④ On vehicle energy, we also extended our engine control unit (ECU) remapping programme in Europe and Pacific to increase fuel efficiency and we have initiated trials of electric vehicles in several countries. We have also improved the quality of energy efficiency target setting and monitoring, especially in our top 13

countries which represent approximately 80% of our vehicle emissions. Our total emissions intensity reduced by 3.5% in 2019. Vehicle fuel emissions represented 83% of total emissions in 2019.

- ⑤ Regrettably, there were two fatal incidents in 2019, both road traffic incidents involving third parties. In the US, one of our vehicles slid in icy road conditions, colliding with the vehicle in front which was pushed into oncoming traffic resulting in the death of the driver, and in Colombia one of our technicians was riding his own motorcycle and collided with the rear of the truck in front. This reinforces the priority we continue to place on driving safety.

Employer of Choice

Sales colleague retention

●●●

85.3% +3.2% points

Service colleague retention

●●○

86.1% +1.0% points

Link to strategy

- ② We invest in training and development to ensure that our colleagues' expertise is unrivalled.
- ③ We recruit, appoint and promote on merit.
- ④ We listen to our colleagues via YVC surveys and act on feedback to make improvements.
- ⑤ By retaining our people, we also retain and build deeper relationships with our customers, which underpins our organic growth.

Link to remuneration

- ② Performance Share Plan (PSP) performance condition and annual bonus personal objectives.

Defined as total sales and service colleagues retained in year as a percentage of sales and service headcount at start of year. Your Voice Counts (YVC) trend score analysis.

Commentary on performance

- ① Total colleague retention (on a 12-month rolling basis to December 2019) was 86.9, a 3.7 percentage points improvement on 2018.
- ② Our Global Recruitment Portal spans 17 markets. 92% of global vacancies now go through the site and over 95,000 people visited the site this year, an increase of over 1,000% from 2017, resulting in an increase of applications of over 200% and a conversion rate of 24% (best practice conversion is around 20%).

- ③ We continue to raise the bar in our industry for the quality of our training and development programmes and in 2019 developed c.800 online training courses and videos, an increase of 63% on 2018, resulting in approximately 1.8 million views of training content, up 41% on last year. Use of our U+ digital learning platform grew strongly in 2019, with active users hitting 30% for the first time and the average number of content views per colleague per month growing 37%.
- ④ We have also seen a large increase in mobile and video usage, with video now accounting for 34% of all U+ views and 32% of U+ sessions now accessed through a mobile device.

- ⑤ Project 365 is focused on improving short-term retention – 0-6 months and 6-12 months – and we have made further encouraging progress this year, particularly in sales colleague retention which at 82.8% and 87.5%, is an increase on 2018 of 2.9 and 3.1 percentage points respectively. Total service colleague retention improved by 1.0% to 86.1%, with significant progress made in all regions.
- ⑥ We believe line manager quality is vital to retaining colleagues and we have targeted resources to improve standards. As well as very positive candidate and manager feedback, we saw double the rise in Engagement and five times the rise in Enablement in the areas we targeted.

Customers

Delivering outstanding customer service

State of Service (SoS)

●○○

97.2%

 -70 bps

Defined as total number of service visits performed as a percentage of total number of visits due.

Link to strategy

- ① We are passionate about delivering excellent service to every customer and keeping our promises to them.
- ② Excellent service helps us retain customers and build deeper relationships with them.

Commentary on performance

State of Service was once again very high, at 97.2%, although down on last year's score of 97.9%. North America is the highest-scoring region at 98.1%, closely followed by Asia at 97.6%. Regional performance improvements have been generated through:

- ① increased customer account management to drive customer loyalty;
- ② improved customer service responsiveness within European operations, in particular in our Workwear operations through implementation of the Quality Strategy; and
- ③ improved products and services.

The slight decline in SoS reflects the integration of the PCI, Cannon UK and MPCL businesses which had lower SoS.

Keeping promises to customers

Customer Voice Counts (CVC)

●●○

44.5

 +2.4 points

Measured by implementation of an average Net Promoter Score across all branches, including in-year acquisitions. CVC score represents the net balance of those customers promoting our service compared with those neutral or not promoting.

Link to strategy

- ① Our business model depends on servicing the needs of our customers in line with internal high standards and to levels agreed in contracts.
- ② Strong performance on CVC is linked to retention and sale of additional services to customers.
- ③ Measuring customer satisfaction allows us to identify unhappy customers, reduce customer attrition and increase revenue, profit and cash.

Link to remuneration

- ① Improving Customer Voice Counts is one of the performance conditions of the PSP, which covers around 850 colleagues across the Group.

Commentary on performance

- ① We made over 120,000 CVC calls to our customers in 2019 to rate us on five service elements: technician, complaint handling, customer contact, product quality and documentation.
- ② North America was the most improved region, with an increase of 2.9 points to 60.3 points, followed closely by Asia, up a further 2.8 points to 53 points. UK & Rest of World rose by 1.6 points to 58.5 points, while Europe recorded a 1.2-point increase

to 10.8. Once again, Pacific declined, this year by 1.0 point; however, the region has the highest overall score of all the regions at 62.1 points.

- ③ Our category analysis of CVC scores shows that Pest Control is our highest-scoring business, rising by 3.5 points in 2019 to 60.2 points, aided by strong performances from the Pacific (up 9.3 points) and North America, which rose by 3.1 points versus a 2.9-point decline in 2018.

- ④ Ambius performed very well in the survey of customer satisfaction, rising by 3.4 points to 50.7 points.
- ⑤ All regions in the Hygiene category except the Pacific showed positive increases in CVC scores. However, a 7.7-point decline in Pacific Hygiene resulted in an overall decline for the category of 0.3 points in 2019.
- ⑥ Workwear was the poorest rated category, declining by 2.0 points to -15.1 points.

Key Performance Indicators continued

●●● Very strong progress ●●○ Strong progress ●○○ Good progress ● Further work required ■ Disappointing progress

Customers continued

Retaining our customers

Customer retention

86.2% +30 bps

Defined as total portfolio value of customers retained as a percentage of opening portfolio.

Link to strategy

- Customer retention is crucial to our long-term success.
- Benefits include: increased purchasing and cross-selling; lower terminations; greater willingness to accept price increases; positive customer recommendations; and a strengthened unique selling point.

Link to remuneration

- Customer retention is part of the personal objectives of the CEO and management teams and impacts the level of annual bonus achieved.

Commentary on performance

Our 30 basis point in-year improvement has been generated through:

- Increased customer account management to drive customer loyalty;
- Improved customer service responsiveness within European operations, in particular in our Workwear operations through implementation of the Quality Strategy; and
- Improved products and services.

Shareholders

Driving higher revenue

Medium-term financial target: 5% to 8% Ongoing Revenue growth

Ongoing Revenue growth at CER

+8.6%

Defined as revenue growth at CER from the ongoing operations of the Group including acquisitions after removing the effect of disposed or closed businesses.

Link to strategy

- We aim to drive shareholder value through driving higher revenues from our core Pest Control and Hygiene businesses, and also from our Protect & Enhance businesses, supported by M&A investment and divestment of non-core or poorly performing operations.

Link to remuneration

- Revenue targets are one of the Company's performance elements of the annual bonus which covers the Executive Directors and managers across the Group and impacts the level of annual bonus achieved.

Target and key activities	Performance	Progress in 2019
5% to 8% Group Ongoing Revenue growth	8.6% growth in Ongoing Revenue, in excess of our target	●●●
3% to 4% Group Organic Revenue growth	4.5% growth in Organic Revenue, considerably above our target 4% and a notable increase on 2018 (3.7% Organic)	●●●
Revenue contribution from acquisitions	4.1% growth from acquisitions in 2019, demonstrating ongoing momentum in our M&A programme	●●○
Ongoing Revenue growth in Pest Control	10.8% growth in Ongoing Revenue, of which Organic Revenue growth was 4.9% (2018: 4.8%)	●●○
Supported by further momentum in Hygiene	5.8% Ongoing Revenue growth, of which Organic Revenue growth was 4.3% (2018: 2.8%)	●●●
Improved performance from Protect & Enhance businesses, including France Workwear	3.5% increase in Ongoing Revenue, of which Organic Revenue growth was 3.2% (2018: 0.6%), France Workwear up 3.4% (3.4% Organic)	●●○
Continued execution of M&A	Another excellent year with 41 acquisitions generating combined annualised revenues of £137m for a total consideration of £316.5m	●●●
Sustained progress in product innovation and capability	Our continued focus on R&D projects, based on target pest behavioural studies and strong external partnerships, delivered in 2019 a focused pipeline of new market products, solutions and services focused on uniquely satisfying customer needs	●●○
Ongoing development of digital products and applications	30% increase in visits to our websites worldwide, 96% of commercial customers using our myRentokil customer portal in 40 countries	●●○

Shareholders continued

Achieving greater profitability

Medium-term financial target: Ongoing Operating Profit growth of c.10%

Ongoing Operating Profit growth at CER	Target and key activities	Performance	Progress in 2019
+10.5%	Further year-on-year improvement in Group Ongoing Operating Profit	10.5% Ongoing Operating Profit growth, in line with target	●●○
	Improvement in Group Net Operating Margin	20 basis points improvement in Net Operating Margin at 13.8%	●○○
	Improvement in Net Operating Margins in Pest Control and Hygiene	20 basis points improvement in Pest Control at 18.0% (50 basis points improvement in North America margin to 14.2%), 40 basis points improvement in Hygiene at 17.8%	●○○
	Above-the-line restructuring costs maintained at below £10m	Restructuring costs of £7.5m (2018: £7.2m), consisting mainly of costs in respect of initiatives focused on driving operational efficiency in all regions	●○○
	<div> <div> Link to strategy ① Our objective is to deliver sustainable profit growth through reductions in central and regional overheads and restructuring costs and by improving service productivity, pricing and margins. </div> <div> Link to remuneration ① Profit targets are one of the Company's performance elements of the annual bonus which covers the Executive Directors and managers across the Group and impacts the level of annual bonus achieved. </div> </div>		

Defined as operating profit at CER from the ongoing operations of the Group including acquisitions after removing the effect of disposed or closed businesses. Ongoing Operating Profit is an 'adjusted' measure and is presented before amortisation and impairment of intangible assets (excluding computer software) and one-off items.

Delivering sustainable Free Cash Flow

Medium-term financial target: Free Cash Flow conversion of c.90%

Free Cash Flow conversion	Target and key activities	Performance	Progress in 2019
98.6%	2019 Free Cash Flow conversion target 90%	£250.7m Free Cash Flow representing 98.4% conversion	●●●
	Net debt	£80m decrease in net debt at £1,073m, post proceeds from the sale of our stake in the CWS-boco joint venture in July	●●○
	Fully funded pension scheme	The buy-out and wind-up of the Company's pension plan is on track to complete in 2020 with an estimated cash surplus of c.£30m to be returned to the Company on completion	●●○
	Standard & Poor's credit rating	Maintained at BBB Stable Outlook	●●○
	<div> <div> Link to strategy ① We are a highly cash generative business and, after dividend and interest payments have been made, we reinvest our cash into the business for future growth through people, technology and M&A. </div> <div> Link to remuneration ① Free Cash Flow is a gateway target for the annual bonus which covers the Executive Directors and managers across the Group, failure to meet this target results in no bonus being payable regardless of how well the Company performs against revenue and profit targets. </div> </div>		

Defined as Adjusted Free Cash Flow divided by Adjusted Profit from continuing operations attributable to equity holders of the Company (further adjusted for any post tax profits and one-offs from the CWS-boco International GmbH associate), expressed as a percentage.

LEARNING
INNOVATION

Our dedicated platform – empowering our people

Communication and engagement with colleagues is increasingly undertaken digitally, with the majority of our people now using company smartphones and mobile technology to support their development. U+ is Rentokil Initial's highly innovative in-house learning and development 'university' which delivers programmes through various channels including online courses via the U+ portal and bespoke training modules for specific roles.

U+ is accessible globally to all colleagues across Rentokil Initial and is available in over 30 languages. The platform is available across desktops, mobile and the U+ app. Just under a third of all U+ training sessions are accessed via a mobile device.

32%

of U+ sessions are accessed via a mobile device

33%

of views are short YouTube-style videos and animations

U+ uses new learning techniques such as video and gamification rather than longer and more traditional e-learning courses. Our U+ app has been integrated with our customer service app to enable our frontline colleagues to seamlessly access relevant content and training at the point of need out in the field.

Our U+ platform gets very high usage by all employees, with 1.8 million views in 2019. On average, every colleague in the world accesses U+ at least once a week – and this is much higher among our frontline field-based teams.

Our Business Model

We're a people business; 43,000 experts protecting people and enhancing lives

We have a clear and simple geographic model in which our businesses are grouped into five strong regions. Operating in 81 countries, c.90% of our revenues are derived from outside of the UK.


Our single-country management teams lead integrated, multi-local and multi-service operations with combined back office functions underpinned by shared systems and processes such as route optimisation and measurement of customer satisfaction. A benefit of our model is a natural resilience to fluctuations in the economic cycle in individual markets, and geopolitical and trade risks due to our local market operations.

We refer internally to our operating model as our 'machine'. Each of the cogs are inter-related and measured consistently at Group, business, country and branch level. The most important element is our people. By getting it right for our people we provide a better service, retain more customers, sell additional services and ultimately create shareholder value. Our success is driven by focused, consistent execution.

More information on all components of our business model is available in this report and is signposted in the diagram below. We have also provided further explanatory text overleaf on the five components shaded in blue in the graphic below.

- See page 55 for more details of our risk management approach
- Our **RIGHT WAY** plan is described on page 3. The medium-term strategic priorities for Pest Control and Hygiene can be found on pages 28 and 36

More information

 Key Performance Indicators on pages 12 to 15

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New business

We generate new business in a number of ways. Our sales specialists are responsible for identifying potential new customers, to whom they can introduce our services, through carefully targeted activities and campaigns. We also rely on our service technicians to generate new business leads during their day-to-day activities. With existing customers we use our knowledge of their needs and requirements to expand our offer into additional value-added products and services. We also invest in our online marketing capability to drive new business through digital channels and our websites across the world.

Additional services to existing customers

Annual Pest Control, Hygiene and Ambius contracts are structured around a series of scheduled customer call-outs, during which our technicians carry out essential services. Contract prices are determined by the number of visits and services taken by each customer. Additional revenues can be gained through the recommendation of further products and services which our technicians consider necessary for the protection of our customers, and we describe this as upselling to the portfolio. An example in Pest Control could be blocking up open vents in building walls, or fitting bristle strips underneath external doors to prevent unwelcome pest entry. We want to ensure that no customer need goes unmet.

Price

As the world's leading international commercial pest control business, we are a premium service provider and this reflects the training and skills of our technicians, our expertise borne out of over 90 years in the industry and the insights we have gained by operating in over 80 countries around the world. Circa 70% of our revenues are contracted and in most regions we are able to increase prices in line with inflation to address inflationary cost increases and wage inflation.

Density

Density is fundamentally important to our strategy. Route density is key – with greater density comes higher margins – and our strategy of acquiring bolt-on businesses to infill locally is central to this. We achieve density in two ways. First is what we call postcode (or zip code) density – this means servicing as many customers as you can in a tight geographic zone. The second is customer penetration – and this involves selling multiple service lines to customers. Much of what we do is to make recommendations to customers about potential services and products which we believe they require.

Low-cost model

Our low-cost operating model is focused on country-based management teams with shared properties and back offices. We focus our cost base on servicing our customers and minimising other costs – hence a focus on service productivity and investing in efficient back office systems and processes. Circa 90% of variable service costs are colleagues and vehicles. The use of digital technologies is transforming our business by differentiating our services or routing our drivers to customers more efficiently.

Our Culture

Underpinning everything we do is our one Rentokil Initial culture

It is a one team mentality with a common purpose and set of values, focused on delivering a great customer experience. Our culture is characterised as customer focused, commercial, diverse, down to earth and innovative. We measure the five characteristics of our culture across our world. The results of our 2019 Your Voice Counts (YVC) global colleague engagement survey are shown here alongside a comparison with the 2017 survey.

We operate a multi-layered approach to analysing and measuring changes within our workplace culture through internal and external sources. In addition to the main measures outlined in this section, we also take account of other measures including diversity, colleague retention, compliance training, and health and safety which are detailed on pages 46 and 47.

Culture model

Our culture model includes our purpose and values, five core culture themes and the ways in which we measure, monitor and report on culture.

Measuring our culture

We measure our culture in two ways. Firstly, using analysis of our internal Your Voice Counts (YVC) colleague survey results, mapped to each of the five core culture themes in our culture model to provide a score and trend for each at a Group, functional and regional level. We have also identified 12 questions (listed below) in the survey to create a Core Culture Index.

- ❶ There are good opportunities for me to learn and develop at this company.
- ❷ I am treated with respect as an individual.
- ❸ This company cares about the health and wellbeing of colleagues.
- ❹ This company is innovative in developing new products and services.
- ❺ This company is open and honest in its communications to colleagues.
- ❻ This company has a clear sense of direction.
- ❼ I have trust and confidence in this company's senior management team.
- ❽ I have trust and confidence in my manager.
- ❾ This company understands and appreciates differences among employees.
- ❿ I have a good understanding of our company's values.
- ⓫ I feel proud to work for this company.
- ⓬ I would recommend this company to others as a good place to work.

Secondly, we use external independent sources, such as our ratings on the job website Glassdoor. Our ELT and Board review our performance on culture and workforce engagement at least twice a year.

Customer focused

Firstly, we're a service company. We strive to meet our customers' needs and our people go the extra mile to do so. We work hard to support our customers and each other. When things go wrong, we put them right fast.

Commercial

We employ and incentivise smart people to help the Company grow by making good decisions that benefit our customers. We constantly seek out new opportunities for growth and ways to work more effectively.

Diverse

We want our workforce to reflect the diverse customers we serve. We value everyone's talents and abilities and strive to attract, recruit and retain the best people from the widest possible pool of talent.

Down to earth

We don't like big egos. People who succeed with us are friendly, comfortable in their own skin, straightforward, constantly seeking to improve, with practical ideas and experiences, and acknowledge the contribution of others.

Innovative

We use the latest advancements to build an innovation pipeline that sets us apart from the competition. We embrace digital technologies that help create new products and make us more efficient.

Core Culture Index results

The Core Culture Index and themes are reported with trends every YVC measurement cycle.

In 2019, our Core Culture Index improved by 1 percentage point to 80%, with all regions improving except for Asia, which declined by 1 percentage point from a very high base. The UK and Latin America businesses both improved by 4 percentage points.

Our strongest cultural characteristics in the views of colleagues are diverse, innovative and customer focused. The most improved scores were in the UK with customer focused increasing by 7 percentage points and in Latin America with the Innovation theme increasing by 6 percentage points.

Our culture in action

Back to school

Rentokil Initial's mission of protecting people and enhancing lives was at the heart of a visit to a primary school by 22 colleagues in Vietnam to show pupils and teachers how to minimise the risk of contracting diseases like dengue fever, which are spread by mosquitoes. In addition, the team raised funds for the school to buy notebooks and pencils.

Your Voice Counts 2019 scores (and trend versus 2017)	Rentokil Initial overall (% favourable)
Customer focused	82 (+3)
Commercial	81 (+2)
Diverse	84 (+1)
Down to earth	77 (+1)
Innovative	82 (+2)
Core Culture Index	80 (+1)

Passion for communities

Our team in Chennai, India, held a series of feminine hygiene awareness events to educate young women on the hygienic disposal of sanitary waste and to raise awareness about the harmful environmental consequences of improper waste disposal. The talks were attended by 700 students. The presentation was also given to 740 of our customers' employees who work in the technology and food manufacturing industries.

Designed to perfection

AmericanHort is North America's largest organisation of landscaping and horticultural professionals and Ambius once again showed its leading design capabilities to meet our customer needs by winning over half of the awards in 2019 – with 16 Platinum and 23 Gold Awards. Installations ranged from living green walls and moss walls to major renovations and spectacular holiday designs.

External perspective

In line with best practice, we also report third party analysis from the global recruitment site Glassdoor. As at 31 December 2019, our 'Company Overall' rating was 4.4 (out of 5) and 'Culture and Values' rating was 4.3 – both significantly ahead of the Glassdoor average of 3.5 and 3.3 respectively. In the UK, Rentokil Initial was ranked #1 in the Indeed Top Rated UK Workplaces award (November 2019).

	Glassdoor average	Rentokil Initial
Senior leadership	3.2	4.3
CEO approval	71.4%	93.0%
Career opportunities	3.0	4.3
Compensation and benefits	3.1	4.2
Recommend to a friend?	63.4%	87.0%
Work life balance	3.4	4.1
Positive business outlook	50.0%	83.0%
Culture and values	3.3	4.3
Overall rating	3.5	4.4

Safety first

In 2019, a customer in South Africa was transporting pine logs by cargo ship to India, which required fumigation before arrival. The vessel stopped in Durban where our teams – which had taken about three months to prepare for the fumigation job – boarded the vessel. After a site risk assessment, the fumigation took place. The job was completed by four specialist teams with gas readings taking place every four hours for 24 hours. Following a thorough venting process, including the use of industrial extraction fans, the vessel was inspected and given the all clear to sail for India. On arrival, a local Rentokil team boarded the vessel and undertook further safety checks.

Our Stakeholders

Understanding expectations

Our business, its strategies, processes and behaviours are influenced by the needs of our stakeholders. We recognise the importance of their views and actively engage with our stakeholder groups across the world to fully understand and act upon their issues and concerns.

We have a broad range of stakeholders who influence or are affected by our day-to-day activities, and have varying needs and expectations. Our aim at Rentokil Initial is to engage effectively with all our stakeholder groups to develop and maintain positive and productive relationships.

In 2019, we conducted a stakeholder mapping exercise (described on page 76) to ensure that the groups that we have identified as key stakeholders remain appropriate. The Company has other wider stakeholders, key partnerships or business relationships, such as the general public, government and regulators, and industry bodies. However, we identify our key stakeholders as colleagues, investors, customers, suppliers and the communities in which we work. We consider the environment in relation to all our key stakeholder groups but include it principally as part of our consideration and engagement with communities. We approach stakeholder engagement at a global, country and local level to ensure that all our stakeholder groups have access to information about our business and activities and are able to identify issues which are important to them.

More information on our responsible business approach can be found on pages 44 to 54. We also produce a separate Responsible Business Report which is available on our website at rentokil-initial.com.

222

meetings and calls with shareholders during 2019

6

investor roadshows and conferences in 2019

Colleagues by region	
North America	8,624
Europe	6,846
Latin America	1,857
UK & RoW	7,770
Asia	15,624
Pacific	2,212
Total	42,933

Colleagues

We employ approximately 43,000 colleagues in over 80 countries. Our colleagues are those who are directly employed by us, which excludes contractors.

Key issues for stakeholder

- Health and safety
- Training and career development
- Tools to do the job
- Wellbeing
- Reward
- Culture and values
- Community support

Why we engage

We rely on the skills, experience and commitment of our people to meet our business goals.

Impact/value created

We aim to become a world-class Employer of Choice providing a safe working environment and development opportunities.

- Pay and benefits to colleagues
- Training and development opportunities

Methods of engagement

- Your Voice Counts employee survey every two years and periodic pulse surveys
- Annual personal development reviews and line manager training
- The **RIGHT WAY** magazine published online quarterly
- Intranet
- Quarterly global internal update by the Chief Executive
- Speak Up ethics hotline
- Conferences, town halls and senior executive updates organised by individual businesses
- Works councils including an annual EU Forum meeting

Measurements

We measure our impact by monitoring our total headcount, diversity, the amount of new online training content made available and online learning views, the talent pipeline of graduate and apprenticeships, and our Core Culture Index. We also monitor external ratings such as Glassdoor. The following key performance indicators relate to our colleagues, with full details on page 12.

- 📊 Lost Time Accidents
- 📊 Working Days Lost
- 📊 Sales colleague retention
- 📊 Service colleague retention

Customers

Our customers range from global food producers to hotel chains and industrial goods businesses and restaurants to individual residential customers.

Key issues for stakeholder

- Health, safety and sustainability
- Expertise and service quality
- Innovation
- Digital portals
- Transparency
- Quality assurance and insights
- Cost
- Regulatory compliance

Why we engage

The Company's purpose is to protect people and enhance lives, and in a service industry we succeed or fail by the quality of the service we offer our customers.

Impact/value created

- Brand value
- Regulatory compliance (food safety, health and safety, etc.)
- Sustainability

Methods of engagement

- Management of ongoing customer relationships
- Customer satisfaction surveys/CVC (NPS)
- Participation in industry forums and events, thought leadership, e.g. the Global Food Safety Initiative
- The Annual Report
- Industry-focused publications
- Websites
- Innovation showcase, e.g. the Power Centre
- Provision of training for customers' staff

Measurements

We measure our impact by monitoring our net gain and portfolio development, operating margin and density, and opportunity pipeline. We also monitor external ratings and measurements such as Trustpilot. The following key performance indicators relate to our customers, with full details on pages 13 and 14.

- 📊 Ongoing Revenue growth
- 📊 Ongoing Operating Profit growth
- 📊 State of Service (SoS)
- 📊 Customer Voice Counts (CVC)
- 📊 Customer retention

More information

- Our responsible business approach (including performance summary) on pages 44 to 54
- Section 172(1) statement on page 52
- Board engagement with stakeholders on page 76
- 📊 Key Performance Indicators on pages 12 to 15

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Shareholders

Our shareholders range from global investment funds and institutions based primarily in the UK, North America and Europe, to small private investors, who are often current or former employees.

Key issues for stakeholder

- Growth in revenue (organic/M&A) and profit
- Cash flow and returns, e.g. dividends
- Brand and market leadership
- Innovation and digital differentiation
- Consistent execution of **RIGHT WAY** strategy
- Environmental, social and governance (ESG) performance

Why we engage

Our investors are the owners of the business. Continued access to capital is vital to our long-term performance. We want our investors and investment analysts to have a strong understanding of our business, strategy and performance, and to understand their priorities.

Impact/value created

We aim to generate long-term profitable growth to help deliver value for our shareholders.

- Internal rate of return
- Earnings per share
- Compounding model
- Dividends
- Free Cash Flow

Methods of engagement

- Institutional investor meetings
- Capital Markets Days
- Investor roadshows
- Annual General Meeting
- Correspondence with retail shareholders
- The Annual Report
- Corporate website
- Results presentations
- Our Responsible Business Report

Measurements

We measure our impact by monitoring our share price and reviewing analyst notes on us. The following key performance indicators relate to our shareholders, with full details on pages 14 and 15.

- 📊 Ongoing Revenue growth
- 📊 Ongoing Operating Profit growth
- 📊 Free Cash Flow conversion

Communities

Our communities are those who live in areas where we work, such as local residents, non-target species, businesses, schools and charities.

Key issues for stakeholder

- Jobs and investment
- Contribution to public health and safe environment
- Environmental impact

Why we engage

We respect the communities in which we operate and employ people, but we also accept a wider responsibility to key communities and environments around the world.

Impact/value created

We partner with charities and community initiatives in communities where we operate and aim to minimise our environmental impacts.

- Tax paid
- Charitable donations
- Energy and fuel-derived emissions (a negative impact which we reduce or offset where possible)

Methods of engagement

- Employment of approximately 43,000 individuals
- Sponsorship and colleague volunteering
- Partnerships with schools, colleges and universities

Measurements

We monitor our impact by measuring the amount of charitable cash donations made each year, our inclusion in ESG indices, and our carbon emission ranking with the CDP. More information can be found in the Responsible Business section on pages 44 to 54.

Suppliers

Our suppliers range from major manufacturers of key products and consumables to our global business, to suppliers of indirect goods and services used to support our operations. Products supplied include pest control baits, paper, soaps and waste disposal units, while indirect supplies include technology services, fleet vehicles and telecommunications.

Key issues for stakeholder

- Long-term engagement and innovation
- Control of price increases and delivery of cost savings
- Continuous improvement approach
- High standards of product and service quality and satisfactory audit reviews
- Governance and corporate responsibility, including human rights and modern slavery

Why we engage

We recognise that strategic partnerships with suppliers deliver more value to our business and our customers than short-term deals.

Impact/value created

- Optimised supply chain from manufacturer to end customer
- Joint development of product and service innovations

Methods of engagement

The Global Procurement team manage the relationship with major suppliers, with senior management involvement where appropriate. Comprehensive audits of all critical suppliers, including factory inspections, systems review and ESG factors, are undertaken.

Measurements

We monitor our impact by measuring our monthly On Time In Full (OTIF) delivery metrics and quality complaints and our annual revenue development, product innovations and pricing management. We also monitor the scores from supplier audits.

We launched a new Supplier Code in 2019.

- 📖 Read more about it on page 53

PRODUCT
INNOVATION

Lumnia: where form meets function

Created in 2017, following five years of working closely with experts in the LED industry, Lumnia is the world's first range of illuminated fly traps to use patented LED lighting technology rather than traditional fluorescent tubes. Lumnia attracts, kills and encapsulates insects hygienically – eliminating the risks of contamination. It is suitable for a diversity of internal environments – both large and small – with the added benefit of a 62% reduction in carbon emissions versus traditional electronic fly killers.

Our products include Lumnia Standard (for offices, shops, food retailers), Lumnia Ultimate (using second-generation lamps for high-dependency customers), Lumnia Colour and Lumnia Slim. Further enhancements to the range are planned for 2020. Key customer segments using Lumnia include food processing, pharmaceutical, hospitals and general industry sites.

62%

reduction in
carbon emissions

9

working days are
typically lost every
year due to a single
fly infestation



The benefits of LEDs, especially around energy efficiency, have long been known, but until now they have not been effectively used to emit the UV output required by fly control units. Following extensive research and development, we have been able to develop an insect light trap which is not only effective, but looks great and also delivers substantial cost savings over competitor units.

Berwyn Evans
UK Product Manager



Left unmanaged, a small fly problem can develop into a severe infestation within weeks. With some fly species being able to mature in just seven days in the right conditions, businesses must take a proactive approach to fly control. Putting the right deterrent measures in place can go a long way in avoiding costly treatments.

Dan Greene
Technician

Pest Control

We have strengthened our position as global leaders in pest control through increased organic growth and by establishing stronger market positions, particularly in Emerging and Growth markets, through the introduction of innovative products and services, acquisitions and our determination to be an Employer of Choice across our global operations.

What we do

At Rentokil our c.36,000 pest control specialists protect people and enhance lives by providing pest control solutions that ensure public health and protect the environment through energy efficient and sustainable pest control services. We offer a complete range of pest control services and solutions for commercial and residential properties, including common pests such as rodents, flies, stored product insects, biting insects and birds to other kinds of wildlife. We have extensive experience across a wide range of industries and use both preventative and responsive strategies to enhance protection for our customers through holistic, integrated pest management programmes.

How we performed

Ongoing Revenue

£1,700.1m +10.8%

We have a strong global position in the pest control industry, which is resilient, non-cyclical and characterised by powerful growth drivers, which we present on page 27. Our Pest Control business accounts for 64% of Group Ongoing Revenue, 68% of Group Ongoing Operating Profit and generated a Net Operating Margin of 18% in 2019. Organic Revenue rose by 4.9% with growth through acquisitions of 5.9%. The category has delivered a five-year Ongoing Revenue compound annual growth rate (CAGR) of 16.6%. We have five core unique selling points (USPs): we are the global leader in pest control, with No. 1 positions in 55 markets; we have a strong Employer of Choice programme and outstanding technical expertise; our powerful Rentokil brand is one of world's top 50¹ most valuable and recognisable brands; our core strength is in the attractive commercial sector; and we are clear industry leaders in digital technology and innovation.

use of digital applications and technology for pest control solutions. Industry growth can, however, be negatively impacted by increasingly stringent regulations, seasonality and the use of hazardous pesticides.

Our customers

In 81 countries, businesses and homeowners trust Rentokil to solve their pest problems and prevent them from re-occurring. While the residential market is important to Rentokil, commercial pest control services account for 80% of our total pest control revenue, with residential pest control representing approximately 20% – over 75% of this coming from the US and Australia. Our key commercial customer sectors include food and beverage processing, hospitality, facility management, offices and administrative, and logistics and warehousing. On a per capita basis, both the US and Australia have much larger residential markets for pest control than in Europe, primarily because of the presence of termites and wooden housing. Industries are increasingly adopting a 'zero tolerance' attitude towards pests to protect their customers and reputations, and as a result we continue to set new standards for service excellence through market-leading technical training, innovation and digital tools.

Ongoing Operating Profit

£305.4m +11.6%

The pest control industry and market

The primary function of the professional pest control industry is to maintain hygienic surroundings for customers that are free of pests that could either damage commercial interests and reputation or endanger public health. Pest control contracts typically specify a certain level of preventative work to be undertaken, such as the number of visits to customer premises, while reactive enquiries for one-off jobs require quick and efficient treatment for specific issues. The global pest control market is an attractive, non-cyclical market worth c.\$20bn and expected to reach \$26.3bn by 2025, delivering a CAGR of 5.3% (source: Research and Markets, September 2019). Factors driving growth include population and social trends, geological factors and climate change, specific pest trends and increasing

Net Operating Margin

18.0% +20 bps

1. Top 50 most valuable commercial services brands (Brand Finance Report 2017).

Structural growth drivers

and innovation: Geological factors and climate change are driving growth in pest control. Customers are becoming more averse to chemical use and are seeking greener alternatives. Rentokil is the only company in the world to have registered CO₂ for use in the control of rodents under EU biocidal regulations, and to have a proprietary non-anti coagulant rodenticide bait in RapidPro.

Global growth drivers

Growing population

The world's population is growing by 80 million people each year and forecast to total 8.6 billion by 2030, creating further demand from pest proximity.

Climate change

By 2050 increased pest and hygiene challenges, posed by climate change and associated extreme weather patterns, are expected to result in approximately 250,000 additional deaths a year from malaria, diarrhoea and other diseases.

Customer expectations

Changing needs and expectations from our commercial customer base with technology providing new methods of service.

Urbanisation

It is estimated that 60% of the global population will live in cities by 2025 and 70% by 2050 (1990: 43%) where pest issues are most prevalent.

Invasive species

The proliferation of invasive species (pests and plants) is expected to continue with intercontinental trade, requiring increased vigilance and preventative treatments. Economic damages are estimated at \$120bn per year in the US alone.

Increasing regulations

Regulations are driving the need for lower toxicity solutions, with an estimated 1,000 active ingredients (54 insecticides) lost in the EU biocides review process.

Rise of middle classes

Estimates suggest 160 million more people join the middle class every year with increasing hygiene standards and lower pest tolerance particularly in Asia, which is expected to comprise 66% of the global middle class by 2030.

Vector-borne diseases

More than 3.9 billion people in over 128 countries are at risk of contracting dengue fever, with 96 million cases estimated per year and the emergence of new diseases such as the Powassan virus.

Increased pest activity

This includes expected growth in mosquitoes, rodents, nuisance pests (including crawling insects and bed bugs) and termites.

Growth markets

Regional segment	Market position	Market characteristics
North America	3	<p>North America is the world's largest pest control market worth c.\$9bn and set to grow by c.5% to 2023. It is highly fragmented with four major players – Orkin, Terminix, Rentokil Steritech and Ecolab – and c.20,000 smaller independents. Market trends include an improving housing market and economy fuelling termite and commercial pest control and rising demand for ant, bed bug and mosquito control services.</p> <p>Key market trends in Australia and New Zealand are rising hygiene standards, legislation and regulation, and free trade agreements with China and India which will fuel export demands and impact the pest and fumigation industry. Major players here are Ecolab, Rollins, Terminix and Massey Services.</p> <p>Rentokil is No. 1 in the UK, Germany and Benelux, followed by several businesses with scale to service national accounts and many smaller providers. Leading European operators include Ecolab and Anticimex. Key value drivers are sales capability, customer retention, upselling additional service lines, increasing technician productivity and optimising business mix. Pest pressures include termites, biting insects, rodents, pigeons and other small mammals. Main customer segments are food manufacturing, processing and retail, pharmaceutical, industrial and manufacturing, hotels, offices and residential.</p>
Pacific	1	
UK & Ireland	1	
Germany	1	
Benelux	1	
Caribbean	1	

Emerging markets

Regional segment	Market position	Market characteristics
Asia	1 & 2	<p>These are fast-growing markets linked to economic and social development. Population growth, a growing middle class and increased government regulation on hygiene and sanitation are fuelling growth. Market trends include strict regulations on food safety, health and the environment, the use of extranets to provide pest control monitoring and performance tracking for customers, the use of mobile technologies by pest control companies to enhance service productivity and a rising customer demand for eco-friendly services and products.</p> <p>The market is highly fragmented with the majority of pest control companies being made up of small, local businesses. Rentokil is a market leader and the most recognisable and trusted brand. Pest pressures include termites, mosquitoes, ants, cockroaches, rodents and flying insects. Cockroaches, carriers of diseases such as salmonella and gastroenteritis, are high-risk pests in homes. Main customer segments are food processing, food retail chains, industrial and manufacturing, hotels and resorts, and offices and residential.</p>
Latin America/ Central America	1, 2 & 3	
Middle East and North Africa	1	
Sub-Saharan Africa	1, 2 & 3	

Growth markets

These markets include North America, the UK, Pacific, Germany, Benelux and the Caribbean. They represent 55% of Group Ongoing Revenues and 60% of Group Ongoing Operating Profit and have delivered a five-year revenue CAGR of 15.5%.

As the world's largest pest control market, **North America** is a particularly important region for us. Our business here provides pest control coverage nationwide, supported by c.350 branches, 47 distribution centres and c.8,400 colleagues. Approximately 70% of our Pest Control services revenues are contracted and 30% comes from jobbing revenue. North America Pest Control has delivered a five-year revenue CAGR of 22.2%. Our strategy in this region is to build density through organic initiatives and M&A. Organic initiatives include growth in national accounts, product innovation, harnessing the digital opportunity and leveraging our business to business sales capability in our core sectors of food processing, food retail, healthcare and offices. We have a proven track record in M&A and our pipeline remains strong.

In 2019, our North America Pest Control operations grew by 11.9% to £949.0m, of which 7.5% was growth through acquisition and 4.4% was Organic. Overall performance was impacted by a softer first half of 2019 reflecting unusually wet weather conditions in certain parts of the country in Q2, but it benefited from a very good Q3 and a return to more usual conditions for the rest of the year. Net Operating Margin improved by 40 basis points in 2019 to 14.3%, supported by stronger organic growth, synergies from acquisitions beginning to flow through and savings in property and procurement from our Best of Breed cost savings programme.

Our strategy

Pest Control is our core business line and our engine for growth. Continued acceleration of the business can be achieved through the strategic priorities shown in the table below.

Medium-term strategic priorities

<p>➤ Continue acceleration of our business by building on our global leadership through further expansion in Growth (particularly North America) and Emerging markets, both organically and through acquisitions.</p>	<p>In North America, we will continue to leverage our scale and build market share through a balanced programme combining organic initiatives (such as new product growth areas, national accounts, innovation, digital marketing, Employer of Choice and the Best of Breed transformation programme) and targeted M&A to build density and increase our expertise in new pest sectors such as vector control and lake management.</p>	<p>Emerging markets – in Asia our focus will be on implementing an improvement plan for India, further roll-out of digital technology to enhance service and efficiency, integration of recent acquisitions and further progress towards profitability in China. We will continue to build key city density in Latin America and build on our vector control capability in the core Brazilian market.</p>
<p>➤ Target high-growth markets of mosquito, bed bug and termites, becoming industry leaders and delivering double-digit revenue growth.</p>	<p>In mosquito services, our aim is to be the first choice of residential and commercial customers, including governments, NGOs and foundations, to deliver consistent, safe, effective and common services across the world.</p>	<p>In termites, our aim is to grow our share of the global termite market while strengthening positive contributions to the overall Rentokil Pest Control brand and business, with a focus on our core regions of Asia, Australia and the US. In bed bugs, our aim is to lead the sector with innovations that provide faster and more effective pest control, leading to margin expansion through reduced service costs, higher premium service offerings and product harmonisation.</p>
<p>➤ Deploy innovation consistently, targeted at key pest sectors and with potential for new non-toxic solutions.</p>	<p>We will continue to invest in product and service innovation to support our profitable growth and industry leadership and have an extensive pipeline of activities in place to support growth in 2020 and beyond. In 2020, we will focus on completing the roll-out of Lumnia across all our markets and will further expand the product range.</p>	<p>In 2020, we will develop and launch Global Bait Box, an innovative, flexible, technology-enabled rodent solution which addresses 57 different needs and market requirements. We will also continue to develop non-toxic pest control solutions (biological and physical methods in place of synthetic chemical products and pesticides) in response to regulatory changes and customer preferences.</p>
<p>➤ Harness the digital opportunity – using our digital expertise including web, apps, portals and services and to lead digital pest control.</p>	<p>Rentokil has developed the world's leading digital pest control platform providing an unmatched level of monitoring, reporting and insight for our customers. Our three key digital innovations are PestConnect, myRentokil and Command Centre (see page 31).</p>	<p>Our aim in 2020 is to enhance the functionality and capability of myRentokil in areas such as charting, reporting and transaction facilities. In PestConnect, we aim to add further to our existing range. In Command Centre, our focus will be on leveraging data to improve efficiencies, drive improvements in sales and service and identify additional service recommendations and potential new innovations from the identification of solution gaps.</p>
<p>➤ Maximise our national and international accounts capability.</p>	<p>Our growing scale and density is enabling us to be more competitive in securing an increasing share of national and global accounts. Our aim is to continue to grow by building long-term strategic customer relationships, carefully targeting attractive prospects, improving our sales execution and leveraging our combined national sales expertise of both Rentokil and Steritech.</p>	<p>Our target key sectors include facilities management and food and beverage production to maximise the global opportunity.</p>
<p>➤ Maintain a strong, value-creating acquisition programme to build further city and local density.</p>	<p>Key focus areas are small bolt-ons to build density in existing markets, acquisitions in new markets and mega cities of the future and medium-sized transactions. Bolt-on acquisitions in urban areas will be targeted for customers, employees, existing routes and synergy opportunities. In new markets, we will focus on acquisitions in target city clusters and large urban areas, improving business performance by deploying our sales and service models, processes, standards, technologies and financial discipline.</p>	<p>We will also pursue medium-sized pest control businesses, particularly in North America, to build density (and to also supplement our growing expertise in sectors such as vector control), applying our own systems, processes and financial rigour to improve revenues and margins.</p>

What makes a great Pest Control technician?


For our **Pest Control**

technicians, every working day is different. Our highly skilled, trained operatives visit customers with a wide range of pest control issues and use their problem-solving skills to determine the most effective solution.

Great Pest Control technicians possess key attributes including the ability to work independently and manage their time to meet set workloads. Previous experience of high customer service delivery (not necessarily in pest control!) is a must, as are excellent written and verbal communication skills, a can-do attitude and willingness to learn.

They must live our core values of Service, Relationships and Teamwork. Great service is doing what we said we would do – on time and in full – keeping our promises and delivering an outstanding customer experience. They must be honest, focused and straightforward in their relationships with colleagues and customers and, as team players, must support and respect all their colleagues' important contributions.

Last, but by no means least, our technicians work to the highest ethics and safety standards, putting the safety of everyone with whom they come into contact first, while adhering to our Code of Conduct and working within the bounds of law and regulation.

 Find out more about our people, culture and diversity on pages **46** and **47**

This was partially offset by a greater mix of lower margin product sales. We continue to broaden our presence across the region through bolt-on acquisitions, and this year purchased 14 pest control businesses, including Florida Pest Control (a top 20 US pest control company) and Active Pest Control in Atlanta (top 40) – with combined annualised revenues of c.\$132m (c.£99m) in the year prior to purchase. For a full review of our North American business (which includes our product distribution and Ambius businesses) and an update on our path to achieve 18% Net Operating Margin and revenues of \$1.5bn by the end of 2021, please see the Financial Review on pages 118 to 121.

Our **UK** Pest Control business continued to perform very strongly, growing organically by 6.3% and benefiting from continuing high levels of customer service, rising customer retention and a number of one-off contracts. We continue to build upon the success of our UK growth story through the use of digital expertise, innovations, productivity and service enhancements and acquisitions. In 2019, c.33% of new sales in the UK were delivered through our innovation pipeline.

Our **Pacific** Pest Control operations grew Ongoing Revenue by 1.1% (0.6% Organic) with overall growth held back by decreased fumigation activity, however, as a result of a change in regulation dictating that tankers importing goods into the region are no longer required to be fumigated on arrival into port but at the port of their departure. We acquired two small pest control companies in Australia in 2019 with annualised revenues of c.£2m. Identifying further pest control acquisition opportunities will be a key focus for 2020.

Our **German** and **Benelux** Pest Control operations also performed well during the year, with combined revenue growth of 10.6% (Germany 13.6%, Benelux 6.9%).

In 2019, we acquired 19 pest control companies in our Growth markets, bringing the total to 117 pest acquisitions since 2015, of which 67 have been in North America.

Emerging markets

We have a strong and rapidly growing position in the markets of Asia, Latin America, MENAT, Kenya, Fiji and Central America, which combined represent a strong platform for delivering sustainable, profitable growth. They represent 9.4% of Group Ongoing Revenue and 7.5% of Group Ongoing Operating Profit and have delivered a five-year revenue CAGR of 24.7%. Since 2015, we have expanded our scale by acquiring 44 pest control companies in Emerging markets with strong growth characteristics.

Asia made good progress during 2019, delivering 4.4% Organic Revenue growth in Pest Control. Once again, our more mature markets of Indonesia and Malaysia delivered double-digit revenue growth of 26.9%. In India, we have grown from a small loss-making unit to the country's No. 1 through our joint venture with PCI Pest Control Private Limited (PCI). Integration of PCI has progressed steadily in the year, with branch network and people complete and our IT platform due to be finished by April 2020. However, continued investment in the IT infrastructure and leadership team has impacted profit growth in 2019. This will provide a strong base for future revenue and margin growth in our largest market in Asia.

In China, we are pursuing a city-based strategy with a focus on specific urban and industrial zones and have made further progress towards profitability in 2019.

Latin America is our youngest region, but expanding rapidly. Rentokil has top three leadership positions in all its Latin American markets and operates in nine of the 10 most populated cities. The business is growing at double-digit rates and in 2019 grew Ongoing Revenue by 19% and Organic Revenue by 7.0%, complementing this with a solid acquisition agenda. In addition to earlier acquisitions in Chile, Colombia and Brazil, four more pest control companies were acquired this year in Brazil, Costa Rica, the Dominican Republic and Uruguay, a new market entry for the Group.

Rentokil Pest Control is also the clear market leader in **MENAT**, and National Pest Control, the market leader in the UAE with 180 colleagues which we acquired in 2018, is fully integrated. We now have the capacity and footprint to operate across all of the main Emirates.

In 2019, we acquired 11 pest control companies in Emerging markets, bringing the total to 44 pest control acquisitions since 2015.



Organic Revenue growth levers

Service differentiation – Lumnia LED fly trap

Sales of our Lumnia LED fly trap range rose by 32% in 2019, with over 100,000 units sold to date in 52 countries. Lumnia was created in 2017 following five years of working closely with experts in the LED industry and is the world's first range of illuminated fly traps to use patented LED lighting technology rather than traditional fluorescent tubes. Lumnia attracts, kills and encapsulates insects hygienically – eliminating the risks of contamination – and is suitable for a diversity of internal environments. It is also more environmentally friendly than traditional units, reducing carbon emissions by 62% when compared with units containing compact fluorescent lamps. Our products include Lumnia Standard (offices, shops, food retailers) and Lumnia Ultimate (which uses second generation lamps for high-dependency customers). We have now added to this range with Lumnia Colour (which offers customers a choice of coloured units to match their interior décor) and Lumnia Slim. Further enhancements are planned for 2020.

Service productivity and cost reduction – digital apps

We continue to see unprecedented levels of change from the impact of technology on our customers and our frontline and back office colleagues, and use IT to improve the quality and consistency of service delivery, drive innovation and reduce costs. Over the last 12 months, we have deployed 20 process

automation/robotics projects in the UK in sales, marketing, finance and HR to free up capacity and reduce costs. This has reduced transactional processing costs from 2.6% of gross revenue to 2.2% and we are now planning to extend our use of robotics across the Group.

We are also rolling out smartphones and apps across the Group, an example of which is ServiceTrak, our smartphone field service app used by around 14,700 Pest Control, Hygiene and Ambius technicians to record service visits in 48 countries – start time, services performed, customer recommendations, customer signatures and end time – and saving around £8m in costs that would have been incurred on replacing traditional PDAs. In 2019, approximately 10 million customer visits were processed through ServiceTrak. To further strengthen our capability, we appointed this year a new Director for Digital Products and Operational Artificial Intelligence (AI), and a Group Director for Digital Innovation and Customer AI. In addition, working with a global technology leader, we are working on the development of a new AI route optimisation productivity tool, capable of providing traffic updates by the millisecond and redirecting the technician's route accordingly. Also in development is a new AI tool to enhance our service capability in pest control. PestID is an image-based smartphone app which identifies a pest from a photograph taken by a technician. Once identified, PestID will recommend the best tools to control the pest plus other important information such as operational safety reminders.

Protecting core markets – innovations in rodent control

Rodent control accounts for c.\$2bn of the global pest control market and continues to grow at c.4% per annum. In 2019, we launched a range of new remote monitoring products to enhance our proposition in this core market and generate speedy responses to infestation threats. Dual AutoGate Connect is a rat and mouse remote monitoring and control unit which, on detecting the presence of a rodent in the unit, opens its 'gate' to provide access to bait and then sends an alert to our Command Centre, and is a new extension to our range of AutoGate products, which have been developed in response to legal directives on certain uses of permanent baiting. Rat Riddance Connect is an innovative trap that is able to send immediate notification of a rat capture. Rodent Ceiling Trap is a ceiling solution for rodent control in gaps above ceilings and which provides indicator alerts to a capture. Finally, our Multi-Mouse Trap product is a monitoring sensor that can be attached to several live catch products for real-time reporting, allowing for early technician support.

Responding to customer needs – PestConnect, myRentokil and Command Centre


Rentokil has developed the world's leading digital pest control platform, providing an unmatched level of monitoring, reporting and insight for our customers who face the risk of increased fines and censure without effective pest management and reporting. This section focuses on three digital innovations – PestConnect, myRentokil and Command Centre.

Key innovations

to drive service, productivity and growth

myRentokil – putting our customers in control

and designed to increase the quality, visibility, and integrity of their pest control protection activities via a range of online services

 Find out more on page 31

Harnessing app technology

to provide an unmatched level of monitoring, reporting and insight for our customers who face the risk of increased fines and censure without effective pest management

PestConnect, our award-winning remote monitoring system for rodents and the world's smartest mouse trap, provides our customers with a complete pest detection solution and full traceability. By the end of 2019, our connected devices were used in over 4,000 customer premises across more than 25 countries, and this year has seen a 56% year-on-year increase in connected devices across the Group.

Our **myRentokil** online customer portal provides secure 24/7 access to real-time information that provides easy access to documentation required for pest control, including reviewing service recommendations and responding to audits. Currently, 96% of our commercial customers in over 40 countries use the portal and we have seen a 32% increase in usage of the portal year on year.

Command Centre is our central information hub containing data compiled from over 40 countries with 6.5 billion records, populated with historic and current data to track pest trends and identify emerging risks. Nine million messages were sent or received across our digital pest control network every day in 2019, recorded on the central Command Centre and stored on the Google Cloud platform.

This year saw the implementation of one of our biggest digital installations to date for a customer with a 73,000-square-metre food production facility in Australia, a country in which food safety guidelines are strictly enforced and where customers face fines of up to 10% of their annual turnover for product recalls. More than 400 PestConnect units were installed in the facility across six major production buildings over a two-week period, delivering a new level of pest management service and significantly enhancing our service productivity. myRentokil data is available in real time with Command Centre, providing 24/7 Internet of Things monitoring, and our colleagues have also been able to make additional product recommendations to the customer, such as Lumnia, which has resulted in 120 units being installed across the site.

Digital marketing – record levels of enquiries in 2019

Our ongoing focus on delivering new content and localisation is driving greater levels of traffic to our websites across the Group. Following on from our success in 2018, which saw a record 21 million visits to our web estate (up five million on the previous year), we have seen a further record level of enquiries this year. Overall web Rentokil traffic grew by 30%, total visits reached 27.4 million sessions (21.2 million in 2018) and conversion of visits to direct enquiries rose by 12% year on year. New online marketing campaigns are under way, focused on how our leadership in technology and innovation helps our customers to 'stay one step ahead of pests' through industry-leading levels of monitoring, reporting and insight.

Vector control – building a world-class capability to combat new pest threats

Rentokil has offered mosquito and vector control services for many years, particularly in Asia where vector-borne diseases are a major threat to public health. Across the Group these services are growing at over 10% and in 2019 we generated c.\$48m of revenues (principally in North America and Asia), an increase of 24% on 2018.

The threat to public health from mosquito-borne disease is significant and increasing as a result of climate change and urbanisation. Each year, there are approximately 200 million cases of malaria and 390 million cases of dengue fever. A paper published in June 2019 in *Nature Microbiology* highlighted that dengue fever is likely to spread to parts of Asia, Europe, North America and Australia – areas that have historically been free of the life-threatening condition. In 2019, the Brazilian Ministry of Health reported 1.5 million dengue cases – an increase of 600% on the prior year – reflecting increasing temperatures and a high volume of rainfall, as well as the emergence of a new strain of dengue fever from the Caribbean. In addition, the European Centre for Disease Prevention and Control reported that, during the year, several human West Nile virus infections were reported in Greece and Romania.

Rentokil operates in the three distinct parts of the mosquito and vector control market: residential, commercial (where increasingly companies are acting with a duty of care towards their employees) and large-scale vector control. We estimate the mosquito and vector control market is now worth around \$3.1bn and is set to deliver a 7% CAGR to 2025. We are therefore focused on building our scale and capabilities in this high-growth area. Recent activities have included establishing a global centre for excellence in mosquito and vector control in the US to support our growing expertise in the field, and creating a mosquito laboratory at our Power Centre R&D facility in the UK in which we can study the behaviour of a colony of *Aedes aegypti* mosquitoes – the primary species responsible for transmitting viruses such as Zika virus, dengue fever, chikungunya and yellow fever – in order to find new solutions for their control.

In recent years, we have significantly enhanced our capabilities in North America and Latin America through a number of key vector control acquisitions. Following the acquisitions of VDCI (the US's leading provider of municipal and commercial mosquito control), Mosquito Control Services in Louisiana and Multicontrol in Brazil in 2018, we acquired Ecovec in Brazil in July 2019. Mosquito and vector control will remain an important focus area for Rentokil as we build our scale and extend our capabilities. We are engaged in ongoing discussions with

municipalities in Latin America, the US and other territories about using our expertise for their large-scale vector control requirements, and recently won a vector control contract in São Paulo. Our pipeline of future opportunities looks encouraging.

Global and national accounts

We continue to make good progress in targeting global customers, particularly in the food processing sector. Our continued active participation in the Global Food Safety Initiative has strengthened our global brand presence in this sector. We continue to grow revenue from our global accounts with an increase of 207% since 2017 and our pipeline of future opportunities has been increased to just over £67.6m. In addition to this, 2019 has seen us push on with account development with our large global facilities management customers. In aggregate across Sodexo, ISS, JLL and CBRE our revenue has grown by 67% in the last 12 months.

Steritech, our North America food safety business, has also significantly enhanced our capability in the US national accounts market, and since 2015 we have delivered compound annual growth in national accounts revenue of 22%. Now with greater scale and density, we are more competitive and securing an increasing share of national accounts through our reputation for service quality, the careful targeting of attractive prospects, improving our sales execution and leveraging our combined national sales expertise of both Rentokil and Steritech. In 2019, we increased our North America national account sales by 15% and, as with our global accounts, our pipeline of prospects is strong.

Growth through M&A

Acquisitions are core to our Pest Control strategy – we have the in-house capability to identify, evaluate and execute acquisitions at pace. Our model for value-creating M&A is structured around disciplined evaluation of targets, detailed integration programmes and careful governance of new businesses under our ownership. This year, we acquired 30 pest control companies in 17 countries: Australia, Brazil, Canada, Chile, Colombia, Costa Rica, Dominican Republic, France, Greece, Indonesia, Jordan, Malaysia, Poland, Sri Lanka, Thailand, Uruguay and the US. Our pipeline of pest control opportunities in both Growth and Emerging markets remains very strong and we are confident of further high-quality acquisitions in 2020.

£8m

cost savings by
replatforming from
c.6,000 PDAs to phones

10m

customer visits processed
with ServiceTrak field
service app

Digitally remastering frontline service provision

DIGITAL
INNOVATION

We are digitally enabling our frontline colleagues and have migrated c.14,700 technicians in 49 countries (80 markets) from paper-based data capture and PDA mobile devices to Android apps for customer installation and servicing. Our new suite of service apps allows digital interaction with customer sites leading to improved service quality and productivity. Our technicians can now take advantage of Android capabilities such as sat nav, photos, video learning, geocode locations and speech to text features.

In addition, we have innovated and commenced deployment of an app to display the customer's floor plan linked to our Internet of Things (IoT) PestConnect solution and standard barcoded service points. This is giving our field colleagues greater visibility of each customer site and our customers a bespoke view of their sites.

Future innovations

Having deployed foundational apps, we can innovate new apps to further improve service productivity.

Examples of future innovation include Pest Heat maps which will use digital floor plans to plot pest activity, allowing technicians to identify key risk areas, and PestID, which uses Google AutoML Vision product (a cloud hosted machine learning service for gaining insights from images) to support our technicians in identifying pest species via an app on their phone. This will be particularly useful in correctly identifying more difficult to identify insects such as stored product insects.



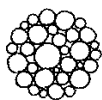
The way we used to build customer site data in the back office took ages and often had mistakes in it. It's a completely different experience now and it's great that the technology has moved forward enough for us to innovate like this. It's a fantastic tool and it's really improved my day-to-day work and the service I can deliver for my customers.

Jon Niesyto
Technical Account Manager



Rentokil is a pioneer in pest control innovation. Linking our colleague-based apps to our PestConnect IoT solutions to create an end-to-end digital ecosystem is the foundation of our digital pest control vision.

Paul Donegan
Digital Innovation Director



Hygiene

Initial Hygiene is the world's largest commercial hygiene services company, offering an extensive range of award-winning products and services to enhance customers' washrooms, while at the same time ensuring that they are compliant with important legislation.

What we do

At Rentokil, our c.2,800 Hygiene technicians provide hygiene services to business environments to make them cleaner, safer, healthier and more pleasant places in which to operate. Good hygiene practices reduce the risk of infection being passed from person to person, resulting in fewer days lost to sickness, cost savings and increased productivity.

How we performed

Ongoing Revenue

£546.8m +5.8%

Ongoing Operating Profit

£97.3m +8.1%

Net Operating Margin

17.8% +40 bps

Our Initial Hygiene business is a strong complementary business to Pest Control. Both businesses service the same types of customers and also share country management, technology, infrastructure and back office services. They are also route-based businesses where profit growth is driven by a fundamental understanding of the importance of density. The megatrends in the hygiene industry – and the importance of being able to prevent the spread of diseases, germs and bacteria – are fuelling demand for our services (see page 35 for global growth drivers). Over the past five years, our Hygiene business has delivered a significant improvement in revenue growth, established a strong product range, launched the myInitial customer portal for enhanced customer insight and engagement and has begun to acquire bolt-on businesses to build scale and density. It has delivered a five-year Ongoing Revenue CAGR of 9.1%.

Our Hygiene operations have performed very well in 2019 across all our regions. This reflects good growth in the UK (up 7.9%), Europe (up 5.2%) and Pacific (up 3.1%) and the ongoing contribution from acquisitions. In our UK & Rest of World operations, performance has benefited from high levels of customer service, improved customer retention and a number of one-off contracts which will be non-recurring into 2020. Our Hygiene operations have traded well overall in our Asian countries, and in Australia our performance reflects the impact of new customer contracts won in 2018 and 2019, driven in part by stronger sales colleague retention.

Attractive and growing market

Like Pest Control, our Hygiene businesses operate in an attractive industry offering good growth opportunities as expectations around standards of hygiene increase. The global hygiene market is expected to grow in line with GDP and our aim is to grow our Hygiene operations organically by between 2% and 3% per year. Our Hygiene business is highly profitable with margins being driven by postcode density (servicing as many customers as possible in any tight geographic zone) and customer penetration (selling multiple service lines to customers). An explanation of some of the key growth drivers in the global hygiene market is provided over the next paragraphs and is also summarised on page 35.

Customers and service culture

Our key Hygiene customer segments are manufacturing, facilities management, offices and administrative, hospitality, retail and education. We achieve high customer satisfaction levels and believe this is a key competitive advantage. We have account management processes in place for contacting customers at least annually to confirm service requirements are being met. We use feedback from our Customer Voice Counts (NPS) surveys to improve service levels and every detractor score is followed up with a call from an account or branch manager within 24 hours.

We identify nine key growth drivers that are vital for the continued success and growth of our Hygiene business globally. As a leading player in the hygiene industry, Initial Hygiene has award-winning products and one of the world's strongest brands, which is particularly valuable in Emerging markets. We have an in-depth understanding of the importance of density of customers by location, what we call 'postcode density', and by the number of serviced products by customer, or 'product penetration' and key operational drivers of growth.

Global growth drivers

Technology solutions advancing the washroom

There is an increased focus on technology across the industry, with original equipment manufacturers (OEMs) offering Internet of Things sensors and data infrastructure. Technology companies are now focusing on the washroom space.

Millennial mindset – an important user segment

Millennials are the largest growing generation in the workforce and the driving force behind the wellness trend where mental, physical and emotional dimensions are in sync. They are highly mobile and hygiene aware when travelling.

Wellbeing accreditations raising building standards

Wellbeing is increasingly being incorporated into building standards, with 82% of employers stating a preference for wellness-enabled buildings (according to the CBRE Group, Inc. 2018). Productivity is replacing utilisation as a core metric of workplace performance aligned to health and happiness. It is estimated that unwellness and absenteeism costs the US economy c.\$2.2tn a year and the UK economy c.£18bn each year.

Urbanisation driving the need for efficiencies

It is estimated that 70% of the world's population will live in cities by 2050 (1990: 43%) where hygiene and sanitation issues are most prevalent.

Air quality

The global air purifiers market is estimated to be worth \$33.2bn by 2023 (CAGR of 12.5%). Asia-Pacific is expected to be the fastest-growing market and will account for 35% of the market share by 2023.

Increased legislation driving standards of hygiene

Particularly in food businesses which are considered to present higher risks to public health than other non-food sectors. Regional legislation is forcing localised solutions.

Rise of middle classes

160 million more people join the middle class every year, with increasing hygiene standards and a growing health consciousness.

Growing population pressure on washrooms

The world's population is growing by 80 million people each year and forecast to total 8.6 billion by 2030, creating further demand for washroom facilities.

Rise of household income driving market growth

A significant increase in female employment across the world has also driven the market growth and washroom need.

Hygiene markets

Regional segment	Market position	Market characteristics
Europe	1 & 2	Initial Hygiene has a No. 1 position in 19 countries, a No. 2 position in 12 and leading market positions in the Pacific, Asia and Caribbean. Characteristics of the global hygiene market differ by country, with regional variances based on social and legislative standards. For example, in countries such as the UK and Australia, where there is tight legislation and very high standards surrounding the disposal of blood waste, the feminine hygiene market is particularly important. In Asia, air care and air quality is of paramount importance to consumers, driving high growth in this sector. In Europe, there is a strong focus on textiles, for example roller towels, and floor care, such as dust mats. In developing countries around the world, where there is growing awareness of sanitation and public health, handwash support is a key market sector.
Latin America	1 (Chile and Colombia)	
UK and Ireland	1 (UK), 2 (Ireland)	
Rest of World	1 & 2 (Caribbean), 1 & 2 (Nordics and Sub-Saharan Africa)	
Asia	1, 2 & 3	
Pacific	1 (NZ), 2 (Australia), 4 (Fiji)	
North America	Europe & Latin America	UK & Rest of World
		Asia
		Pacific

20,744

Hygiene customer site visits were recorded using our ServiceTrak app in 2019, all of which were processed to our customer and operational systems, without paperwork or admin



Hygiene

Our strategy

Our strategy is to deliver continued growth through a combination of strong operational focus and targeted M&A to build city density. Central to this is the delivery of excellent customer service, product innovation and improvements to service productivity through digital products and applications.

Medium-term strategic priorities

<p>➤ Continue to focus on delivering service quality and productivity.</p>	<p>Delivery of an effective On Time In Full (OTIF) service supported by capable and motivated colleagues will support baseline organic growth. An OTIF service provides us with the strongest platform for customer retention, acceptance of Application Programming Interfaces (API) and upsell of additional service lines.</p>	<p>We will aim to do this through deployment of digital solutions, such as ServiceTrak, to enable our Hygiene technicians to be in the right place at the right time delivering the right service to customers. In addition, we will continue to focus on local and regional activities to support and maximise customer retention through Project 90.</p>
<p>➤ Continue to offer best-in-class products, developing new, targeted, lower-cost products and innovations and expanding our product and service offering into the wellbeing sector.</p>	<p>Our priorities are to expand our hygiene service offering, with a focus on washrooms, wellbeing and additional route-based services.</p>	<p>In washrooms, our focus will be on deep-clean services, lower-cost products and consumables and market expansion of our floor care offer. Wellbeing products will include compact air purification products and our new high-performance Signature Scent air fragrance. We are also piloting a first aid service offer with kits to treat serious and minor wounds including sprains, eye injuries, burns and snake bites. Defibrillators may also form part of this service offering.</p>
<p>➤ Harness the digital opportunity, developing digital innovations to address customer needs and increase productivity</p>	<p>The digital hygiene market is expected to deliver a c.10.5% CAGR to 2023, with the global smart washrooms worth some \$2.5bn.</p>	<p>Priorities will include the deployment of our Rapid>Smart Hygiene digital washrooms products and our evolving myInitial customer portal. We will aim to provide industry-leading and differentiated digital products to meet the needs of our key customer target groups.</p>
<p>➤ Build customer and product density to drive margin expansion.</p>	<p>Targeting of the right customers by capable and motivated sales colleagues will enable us to win new business and increase penetration regionally and within customers' sites.</p>	<p>Analysis of our current footprint supported by the right sales incentives and selling methods to drive behaviours that will lead to improved density.</p>
<p>➤ Pursue targeted, city-based M&A to build density and grow profits.</p>	<p>Identify and acquire businesses to integrate into our existing Rentokil Initial activities – in addition to existing hygiene services or as new entries where we have pest control.</p>	<p>2019 has seen further demonstration of M&A working very well for our Hygiene business and this will be a continuing focus in 2020 and beyond. Our focus in Hygiene M&A will be on building city density across existing and new regions, with a particular emphasis in Emerging markets.</p>

What makes a great Hygiene technician?

Our **Hygiene technicians** visit many different customers to carry out a wide range of cleaning jobs, ranging from deep cleaning of a restaurant kitchen right through to a crime scene clean-up. Those of a squeamish nature may find this is not the job for them!

However, colleagues who want variation in services and customers will find Initial a great business to work for.

As with Pest Control, our Hygiene technicians must possess a key set of attributes to make them great technicians.

These include being self-motivated, proactive, reliable and flexible, and being able to demonstrate clear and confident communication skills with customers and colleagues.

One of the great things about working with Rentokil Initial – both for us and for our colleagues – is that we don't require applicants to have prior experience of the role because we will provide the training, support and guidance to make our new colleagues experts in the industry.

E Find out more about our people, culture and diversity on pages **46** and **47**

Organic Revenue growth levers

Our core offer in our Initial Hygiene business is based around the washrooms of customer premises. Maximising revenue means growing our core washroom offer and we achieved this in 2019 through a number of broad-based operational improvements in product density, service quality and productivity, digital innovation, building the sales funnel and also in highly targeted M&A.

Best-in-class products and density

Growth in Hygiene is driven by both postcode density (servicing as many customers as possible in a tight geographic zone) and customer penetration (selling multiple service lines to each site). What we seek, therefore, is more customers on the route and more products on the washroom wall. Over the past few years, we have made significant investments in developing new product lines and these include our high-end Reflection range, our mid-end Signature suite of products, Signature Colour, No-Touch products and Premium Scenting. We believe that we now have the best products in the market and this confidence in our range enables our sales force to sell more products. Further additions to our product lines in 2019 included a new range of environmentally friendly hand soaps and enhancements to our air care range including new aerosol fragrances.

Service quality and productivity

Initial Hygiene continues to receive a five-star review rating on Trustpilot for service quality. The supply and cleaning of feminine hygiene units is one of the most frequent services we provide at Initial. In the UK, our on-site liner service provision is now fully rolled out.

This replaces traditional bin transfer and cleaning of the units within our depots, as the service can be completed on our customers' premises, reducing the amount of products we carry on our vans by c.50% and increasing the number of customer visits that a service technician can make before having to return to their local depot. It also means our UK technicians can now stay out between two and three days before returning to branch.

Digital innovation – sales and service

Our digital sales and service tools are also increasing productivity and are being utilised to build customer awareness of Initial's multiple product offerings. Our online Hygiene customer portal, myInitial, is being developed to highlight the full spectrum of Hygiene solutions on its home page and is now being used by customers in 18 countries. We continue to digitise service dockets, both in field service and when presented to customers through the portal. In addition, we now track sales leads per driver on a monthly basis.

Our smartphone field service app, ServiceTrak, is also improving productivity, the benefits of which include better colleague retention, higher gross margins achieved through greater service productivity and cost savings, and delivery of a more professional service to customers. Our Hygiene technicians use the app to record service visits – for example, start time, services performed, customer recommendations, customer signatures and end time. The app is now being used by just over 3,500 Hygiene technicians in 31 countries and during the year we completed 20,744 customer site visits on ServiceTrak, all automatically processed to our customer and operational systems,

without paperwork or admin. In 2019, we also generated 31,984 new business leads from service colleagues.

Building the sales funnel in Hygiene through digital channels

We focus on driving continuous improvements to our web estate around the world to increase customer traffic to our sites and generate new business leads. During 2019, web traffic to Initial websites increased by 6% on 2018 and can be attributed to a number of successful, targeted cross-sell, upsell and email campaigns to increase customer visits. As an illustration, one such campaign in the UK involved sending over 84,000 emails to target companies over 10 months, resulting in a 30% increase in sales target lists in the first quarter of 2019. Other highly effective campaigns include Google My Business and Pay Per Click campaigns. In addition, by using digital tools such as Chatbox and Webchat, our Sales representatives can free up more time to focus on sales activities.

Extending our services to build product density and add premium ranges

We have been very encouraged by the momentum created in our Hygiene business over the past few years and are becoming increasingly confident in the growth opportunities afforded by the business, which we see as a core, complimentary business to Pest Control. Our focus for continued growth is to target new growth opportunities by building product density and adding new premium products to our hygiene range. These high-growth areas include air care, digital hygiene and route-based service extensions, such as first aid.



Hygiene

Air care

The global air care market – which includes premium scenting, air quality monitoring and air purification – is estimated to be worth around \$17bn and is expected to deliver a 10% CAGR over the next seven years. Air care gives us an opportunity to broaden our existing hygiene offer into a higher-growth wellbeing service offering and we have identified a number of preferred suppliers for next-generation air purification and enhancement products, which we are now piloting in a number of markets. We plan to add to our scenting range a new multi-fragrance, long-lasting (up to 36 weeks) air nebuliser and also plan to launch a new wall-mounted air purification device which will improve indoor air quality by filtering out air pollutants and odours.

Digital hygiene products

During 2019, we have been piloting a number of new digital hygiene products, with our first digital range set for launch in 2020. These include no-touch digital taps and soap dispensers, hand wash monitoring and cubicle sanitisers. Digital monitoring of consumables enables more efficient washroom operations at lower cost, with a reduced environmental impact and offering a better guest experience. Our RapidWater taps and RapidFoam soap dispensers reduce water and soap consumption with one container of RapidFoam providing over 16,000 hand washes, significantly extending periods between refills and reducing the environmental impact from soap usage by

up to 98%. RapidCount is a wireless footfall monitor that provides continuous, 24/7 real-time data to customers, enabling them to observe equipment usage throughout the day, identify which washrooms are at their busiest or quietest and spot busy locations in order to plan an effective maintenance regime.

Route-based extensions

We are piloting other route-based extensions to our products and services, including a first aid kit service solution which we have been trialling in Melbourne, Australia, and which we will be rolling out across our Pacific operations in 2020. Our planned standard service solution will include installation of the kits (either wall mounted or portable), four service visits per year to replace full modules when used or expired and shipment of additional modules on customer request.

Growth through targeted M&A

The M&A environment in the hygiene market is less competitive than in the pest control market and asset prices are not as high. However, hygiene companies are less straightforward to integrate as we are acquiring companies using other branded products, which must be converted to our own over time. As our confidence in our Hygiene model grows, so too has our focus on securing attractive hygiene acquisitions and we have acquired 25 hygiene businesses since 2015, including the larger acquisitions of CWS-boco Italy and global Cannon Hygiene business. We have made further good progress in Hygiene M&A in 2019,

in particular in Emerging markets, with eight deals completed this year in Chile, Colombia, Dutch Antilles, Indonesia, Malaysia, Spain and the UK. The Cannon Hygiene business, now fully integrated in eight countries and now also being integrated into our UK operations after conclusion of the CMA review, is performing well and to plan.

In July 2017, the Group's Workwear and Hygiene assets principally in Germany and Benelux were transferred into a joint venture (JV) with Haniel for a cash consideration of €520m and a retained 17.8% share in the JV. On 30 July 2019, we agreed to sell our remaining stake in the JV to Haniel for a cash consideration of €430m. Together with the initial consideration for transferring the businesses into the JV of c.€520m and dividends received since its formation of c.€29m, the transaction has realised a total cash return of c.€979m. The proceeds from the sale have been used to reduce debt and support the Group's M&A programme.

Competitors


There are many routes to satisfy washroom hygiene needs with competitors providing a wide range of supply solutions. Regional, full-service companies provide service solutions, either direct or via cleaning companies / facility management, differentiating on services, products and coverage. In several markets washroom requirements can be met by FM or cleaning companies direct, but this solution is not typically of the same standard provided by washroom services companies.

Key innovations

to drive service, productivity and growth


RapidFoam

A single dispenser of RapidFoam provides 16,000 handwashes, extending periods between refills and reducing the environmental impact from soap usage by up 98%.

 Find out more above

Our first range of digital products

are set for launch in 2020. These include no-touch digital taps and soap dispensers, hand wash monitoring and cubicle sanitisers.

 Find out more above



Protect & Enhance

The four businesses included in our Protect & Enhance category are Workwear (France), Ambius (Global), Property Care (UK) and Dental Services (Germany and Sweden).

What we do

Ambius is the world's leading commercial provider of plants and scenting. Property Care provides damp proofing, property conservation, woodworm treatment and wood rot treatment services. France Workwear specialises in the supply and maintenance of workplace garments. Dental Services operates principally from two main hubs and specialises in the disposal and recycling of dental waste.

How we performed

Ongoing Revenue

£397.6m +3.5%

All four businesses are cash generative and share overheads with our Pest Control and Hygiene businesses. However, they operate in markets which typically offer lower opportunities for profitable growth. Combined, the businesses represent 15% of Group Ongoing Revenue and 10% of Ongoing Operating Profit and generate a Net Operating Margin of 12.3%.

A much improved performance in 2019

2019 has been another encouraging year for our Protect & Enhance businesses despite ongoing market challenges. Workwear, Ambius and Dental Services recorded year-on-year growth in Ongoing Revenue, while UK Property Care showed a much improved rate of revenue decline of 2.5% for the year (versus a decline of 17.4% in 2018), aided by a 2.2% return to revenue growth in H2.

However, while Ambius and Dental Services delivered profitable growth of 19.8% for the year, Property Care and France Workwear both declined by £0.4m (363%) and 2.6% respectively. Underlying profits in Workwear improved year on year, but they have now reached the level where statutory employee profit share regulations in France has triggered, resulting in an overall Ongoing Operating Profit decline for 2019. In line with our strategy for the category, service metrics for all four businesses are high, with 2019 State of Service at 98.5% and customer retention at 90.2% (the highest level across all our businesses). Customer retention in France Workwear was 92.8%.

Ongoing Operating Profit

£48.7m +6.6%

Net Operating Margin

12.3% +40 bps

Workwear

Our Workwear operations in France specialise in the supply and laundering of workwear, uniforms, cleanroom garments and personal protective wear. 2019 saw a marked turnaround in Organic Revenue growth – which rose by 3.4% versus 0.9% in 2018 – and customer retention and productivity by garment at record highs. This has been achieved through an outstanding execution of strategy by our management team, which has focused on service and product quality to drive customer retention, together with profit improvement and margin protection initiatives. Initiatives during the year included implementation of a programme to fit RFID (radio frequency identification) tags on all garments processed through our facilities to guarantee tracking and solve missing items issues (which account for c.50% of customer complaints). In keeping with our Group commitment to run a responsible business we also deployed our first electric and bio-fuel vans and commenced a recycling garment project with the aim of recycling around one million garments each year.

While we are greatly encouraged by our performance in 2019, we are not complacent. We continue to work to return the business to full operational and financial health through ongoing implementation of our Quality Strategy in Workwear. This agenda focused first on processing and service quality, where we have made strong progress in a number of areas (e.g. improvements in customer retention, process digitisation and delivery route optimisation). Second, we have been enhancing product and service innovation across the business (e.g. service quality KPIs, RFID technology, deployment of smartphones and apps to all our frontline



Protect & Enhance

Sales and Service colleagues). Finally, our Customer Care Strategy aims to achieve new levels of customer intimacy via enhanced organisational design and dedicated expert teams supported by an ecosystem of telephony and web contact channels.

We have made the decision to separate our French Hygiene and French Workwear businesses to allow greater specialisation in each area. As we have seen elsewhere across the operations, this focus will enable us to extend our services to our hygiene customers as well as bringing more direct expertise and innovation. The separation, which will take approximately 12 months, will involve some duplication of cost as we split the businesses and we anticipate this will be in the order of £1m in year one. As required to support such a change we are in the process of consultation with the appropriate works councils, unions and social partners.

Ambius

Ambius operates in 16 countries and has No. 1 positions in eight of its markets (including in the US, Canada, Australia and New Zealand). Its product offering is broadly consistent across the world and includes interior landscaping, Christmas decorations and premium scenting. The US business comprises 59% of total Ambius revenues. Key customer segments are offices, facilities management, hospitality, food and non-food retail, leisure, healthcare and education. Our products and services in Ambius have a strong link with health and wellbeing, and service quality, expertise and customer retention metrics are high. Our strategic focus is on higher-margin green (living) walls and premium scenting, expanding and exploiting international agreements and driving lead generation through digital applications.

Property Care

Our Property Care business is based in the UK. Services include dry rot and woodworm treatment and damp proofing. We have a leading position in the industry and have developed a strong operational capability with certified teams undertaking work in commercial and social housing. The business has an excellent reputation for customer service and a loyal customer base. Our three brands, Peter Cox, Wise Property Care and Rentokil Property Care, were the top three businesses rated by customers in the damp proofing category, ranked by Trustpilot in 2019. Trading, however, continues to be significantly impacted by the slowdown in the UK property market and, while the business is small – generating revenues of £22.5m in 2019 – its recent revenue decline over the last two years has dampened Organic Revenue growth in the UK & Rest of World region.

To counter ongoing market pressures, we have been implementing a business improvement plan based on better revenue, leveraging our digital expertise from Pest Control, focusing on cost and efficiency measures and developing pest proofing service lines to additional customer segments to reduce dependence on the UK housing market.

Dental Waste Hygiene

Medentex is based in Germany and Sweden and specialises in the professional and compliant disposal and recycling of dental waste. It has 90 employees and provides waste separating products to customers in Germany, France, Switzerland and the US. It is a small, profitable business (with revenues of just under £12.1m) and c.56% of its annual

revenues are generated through the sale of precious metals. The price of gold, silver and platinum rose very strongly during the year, up 34% (gold) and 29% (silver and platinum) contributing to growth in Ongoing Operating Profits of 60.2% during the year.

Outlook for 2020

We are very encouraged by our performance in France Workwear this year but will continue to work steadily in 2020 and beyond to restore the business to long-term operational and financial health. While performances in our Ambius operations are linked to economic conditions, it is a highly skilled leader in its industry, with specialist expertise in large-scale installations. It also benefits from a strong fourth quarter, reflecting strong holiday sales in North America in the run-up to Christmas. Ambius is also well placed to capitalise on the rapidly growing global scenting market. All these are encouraging signs for the coming year. Market conditions in Property Care are expected to remain challenging in 2020; however, overall business performance has improved over the course of 2019 and we expect to gain further traction from the operational improvement plans implemented in 2019. We expect trading conditions in our Dental Services markets of Germany and Sweden to be broadly similar to 2019.

Innovations

to enhance customer experience

The Natede smart natural air purifier

uses a fan installed beneath the plant to boost its natural air purification process.




Find out more about air care on page 38

Known as plant care specialists, interior/exterior technicians or installers, our **Ambius technicians** enjoy being out and about and are excited by visiting businesses such as boutique hotels, botanical gardens, retail centres and business parks, keeping their diverse range of customers looking and smelling great.

Key attributes of a great Ambius technician include being passionate about delivering excellent customer service and enjoying meeting and communicating with new and existing customers.

An enthusiasm for undertaking physical tasks, such as installing planters and hanging baskets, is important as is flexibility over working hours. Once again, as with Pest Control and Hygiene, although it's very helpful for our new Ambius colleagues to have horticultural, greenhouse or plant handling experience, it is not required as we provide full training to equip them to perform an outstanding job for clients once in the field.

 Find out more about our people, culture and diversity on pages **46** and **47**

What makes a great Ambius technician?

Spotlight on Ambius

From design concept to installation and ongoing maintenance, our Ambius colleagues are passionate about providing a world-class experience for all our customers, with each project designed to reflect their business needs, style and brand.

The market

The interior landscaping market is forecast to grow at 5% per annum through to 2025 (2019 Ibis World Report) impacted by key trends from the millennial mindset to concerns on indoor air quality as part of a wellbeing drive in commercial environments.

Strategy

Ambius continues to deliver profitable growth across its 16 markets from its in-house serviced solutions, ranging from large projects, interior landscaping and green walls to scent marketing and Holiday decor. The core sectors served include offices and administration, hospitality, retail, transportation and property management. Programmes of continuous improvement are also important as we look to deliver sales impact, customer satisfaction and retention, as well as margin improvement.

Outlook

Looking ahead into 2020, we will deliver organic growth by strengthening our core differentiators of in-house service and global expertise, increasingly important to evolving buyers across our lines of business. Our innovation focuses on reinforcing our positioning as the global experts in providing wellbeing solutions for commercial environments with new biophilic propositions around enhanced workspaces. We are also leveraging our experience in total aircare with new active green air, air purification and indoor air quality monitoring solutions.

PARTNERSHIP
INNOVATION

Innovating in partnership with industry experts

Approximately half of our innovation projects have been generated in house, either by our Science Team or as a result of insights gained from our businesses around the world.

Other projects are initiated as a result of a meeting of minds between ourselves and a collaborative partner who brings their own specialised expertise to a new project. However, whether in-house or not, at some point in the project route to market, most projects will need an external collaborator – ranging from design and electronics expertise to specialised knowledge or testing ability, through to negotiating exclusive access to intellectual property or other commercial arrangements.

We work with partners from Asia Pacific, South and North America, Europe and the Middle East – in fact everywhere we operate. They include major industry manufacturers and suppliers, leading industry bodies, audit bodies and working groups, universities, small and large scale innovators with their own ideas, and our own customers. For those that come to us, they do so because of our global size and reach, but most importantly because they recognise that innovation is an integral part of our culture, and this gives them the opportunity to engage with our scientific and technical teams to turn their idea into a new and exciting solution for a pest control problem.

Our most successful recent collaboration has been in developing Lumnia, our illuminated insect fly trap. Combining power saving technology with maximum fly catch efficacy would have been impossible had we not worked with the world's leading company with expertise in ultra-violet LED technology.

20

We typically work with around 20 collaborative partners across our innovation portfolio at any given time.

6

Our expertise and industry knowledge has resulted in our colleagues being members of at least six regional and global technical working groups shaping the future of our industry.

Responsible Business

Our responsible business approach is integral to everything we do

It is central to our **RIGHT WAY** strategy; it is linked to our purpose of protecting people and enhancing lives, and our vision to become a world-class services company, and our values of service, relationships and teamwork.

For Rentokil Initial, being a responsible and sustainable business also means helping colleagues to have safe and fulfilling work lives, supporting customers by developing and delivering products and services responsibly, and benefiting society and the environment by acting in the most effective manner.

Our responsible business priorities are aligned to those of our key stakeholders (see page 22) and driven from the top of our organisation by the Chief Executive who has Board accountability for responsible business delivery as well as engagement with its wider stakeholder groups. Further details about our Board engagement can be found in the section 172(1) statement on page 52 and in the Corporate Governance Report on page 76.

During 2019, we have made significant progress in our key sustainability priority areas – in particular: **Safety, People and diversity, Service and innovation, Environment, Digital and Communities**. Governance also continues to remain key to our responsible business approach as set out on page 53.

We recognise that there remain challenges and further progress to be made. For instance, in 2019 there were a small number of serious incidents in our business and we have had to investigate and reinforce governance in some of our fumigation operations, in Asia Pacific in particular. Improvements in these areas are important for the performance of our Company, key stakeholders and society.

Purpose

Our purpose is to Protect People and Enhance Lives – for instance, ensuring safer foods and medicines, better hygiene in schools and workplaces, and healthier environments in which to live and work. Our services are becoming more important to achieve this, as pest threats change and society's expectations of public health and food safety grow ever more demanding around the world.

Alongside the existing hotspots of mosquito-borne diseases in Asia, Africa and South America, new research presented at the 2019 European Congress of Clinical Microbiology & Infectious Diseases showed

that the geographical range of vector-borne diseases, such as chikungunya, dengue fever and tick-borne encephalitis, is expanding rapidly. Spurred on by climate change and international travel and trade, vector-borne disease outbreaks are set to increase across much of Europe over the next few decades – and not just in the temperate countries around the Mediterranean.

Independent accreditation

Rentokil Initial has been a member of the Dow Jones Sustainability Europe Index for 14 years, and in 2019 we improved our performance by 7 points. We are also members of the FTSE4Good Index and CDP with a C rating. Sustainalytics rate us a 'Low' ESG risk.

This year, we have achieved external recognition across the globe in areas such as health and safety, diversity, workplace culture, service excellence, colleague training and development (see below).











For three years we have worked to enhance every aspect of our employee experience. In 2019 we were honoured to be recognised as Britain's Most Admired Company for Diversity and Inclusion by Management Today, and Britain's Top-Rated Workplace among private sector companies by Indeed.


Andy Ransom
Chief Executive

Performance summary

The table below sets out how we measure our impact against our responsible business priority areas and indicates where stakeholders can find more information.

	Performance measures	2019 performance
Safety See page 46	Lost Time Accident rate 	16% improvement in 2019 to 0.53
	Working Days Lost rate 	26% improvement in 2019 to 10.99
People and diversity See pages 46 and 47	Total headcount	42,933 (2018: 39,480, 2017: 36,036)
	Board diversity	43% of Board members were female
	UK gender pay gap	-6% mean; -2% median
	Female senior managers	26% of our Executive Leadership Team and its direct reports were female
	New online training content	c.800 pieces of learning content developed
	Online learning views	Over 1.8m views of items (+41% year on year)
	Talent pipeline	Over 100 graduates and over 400 apprenticeships
	Glassdoor company rating	4.4 out of 5 (average score 3.5)
	Total colleague retention	86.9%, an improvement of 3.7% points
	Sales colleague retention 	85.3%, an improvement of 3.2% points
	Service colleague retention 	86.1%, an improvement of 1.0% points
Service and innovation See page 47	State of Service 	97.2%, above our 95% target (2018: 97.9%)
	Customer satisfaction (CVC) 	+2.4 points from over 120,000 customer calls (NPS)
	Percentage of job sales revenue from innovation	32% in UK
	Number of patents filed	18 in 2019
	Lumnia insect light traps	56,000 sold in 2019 (+32%)
	Trustpilot score	5 stars for Rentokil and Initial in the UK from over 3,000 reviews each
	Customer retention 	86.2% (2018: 85.9%)
Environment See page 48	Emissions	3.7% reduction in the emissions index in 2019
	5-year emissions intensity target – 20% reduction by end of 2020	Achieved: 20.4% reduction as at the end of 2019
	Recycling	Over 100,000 Hygiene units recycled in France and Italy over two years
Digital See page 48	Website visitors	Total traffic reached c.27.4m sessions, an increase of over 6m year on year
	Digital Pest Control	PestConnect: 4,000 customer sites myRentokil: 96% of commercial customers Command Centre: +6.5bn records
Communities See page 49	Charitable donations	£206,000 (excludes donations in kind)
	Rainforest protection	c.850 acres protected through Cool Earth partnerships

 Find out more about our non-financial information on page 54

 Key Performance Indicator – see more on pages 12 to 15

The following pages focus on these key areas with further information detailed in our online Responsible Business Report for 2019, which can be found on our website at rentokil-initial.com.

Responsible Business continued

Safety

Nothing is more important in Rentokil Initial than Ensuring Everyone Goes Home Safe at the end of their working day. Our colleagues, our families and our customers rely on this commitment. Health and safety will always be our first priority and there can be no compromise on this. Health and safety is the first item on the agenda at every Executive Leadership Team and Board meeting.

2019 was our safest year yet in terms of our two key metrics. Our Lost Time Accident (LTA) rate continues to perform at world-class levels (below 1.0) with a 16% improvement versus prior year, while Working Days Lost (WDL) improved by 26% versus prior year. All regions, except Europe, operated at world-class safety levels with LTA rates below 1.0.

The long-term improvement in our safety performance is due to our consistent prioritisation of health and safety through rigorous deployment of our Safety Leadership Behaviours, combined with an extensive portfolio of training courses for better management of health and safety, and our Site Risk Assessment smartphone app enabling quick and effective risk assessment. This year, we have also introduced the Origami incident management system, which helps better manage incidents by simplifying incident data collection and automating the investigation process, triggering corrective actions faster.

We continue to enforce the Driving at Work minimum standards for all driving colleagues. In North America, we provide **Behind the Wheel** training for drivers working in traffic areas with risk of high collision rates, while in Europe we have deployed **Safe Driver Pod** – a new mobile phone blocking technology which blocks calls while driving. This is also being implemented in the Pacific region.

Regrettably, we experienced a small number of serious incidents in 2019. A technician in North America sustained serious fractures to his ankle and feet after being involved in a road traffic collision. A third party vehicle went through a red traffic light at approximately 100mph and collided with our service vehicle. The third party driver died at the scene and was found to be at fault. Also in North America, one of our service vehicles slid on some ice and collided with the car in front, pushing it into oncoming traffic. A woman in the third party vehicle died as a result. In Colombia, a Hygiene technician sustained fatal injuries and died at the scene after his motorcycle collided with the rear of a truck.

In 2019, we were awarded the International Risk Initiative of the Year from the International Institute for Risk and Safety Management, and for the second year running our UK business has been awarded a Gold Award by the Royal Society for the Prevention of Accidents.

Key indicators	2019	2018	2017	2016	2015
Lost Time Accidents (LTA) ¹	0.53	0.63	0.58	0.63	0.76
Working Days Lost (WDL) ²	10.99	14.77	11.65	16.14	19.59

1. The LTA rate is calculated as the number of Lost Time Accidents (injuries and illnesses) per 100,000 hours worked.

2. The WDL rate is calculated as the number of working days that colleagues could not work because of Lost Time Accidents (injuries and illnesses) per 100,000 hours worked.

People and diversity

As part of our **RIGHT WAY** plan, Rentokil Initial is committed to becoming a world-class Employer of Choice. Our aim is to attract, recruit and retain the best people from the widest possible pool of talent. Workplace programmes provide a high-quality recruitment experience; utilise best practices and policies to improve diversity; and deliver industry-leading learning and development opportunities. We believe that, by getting it right for our people, we provide a better customer experience and ultimately deliver better returns for shareholders.

Our global careers portal had over 260,000 job applicants in 2019, which was up 159% on prior year. The average CVs per hire increased from 32 to 63 globally and the conversion rates (number of people who go on to apply after visiting the site) was 23.5%. The site features videos and a Job Fit tool to improve the quality of candidates. In addition, a ShadowMatch tool looks at key attributes of high performing colleagues to further support higher quality recruitment. In 2019, a new video interviewing platform allowed candidates to upload their application video, making it simple and easy for the candidate and reducing the time to hire.

During the year, Your Voice Counts, the Company's global survey, provided every colleague a confidential opportunity to provide feedback on workplace culture, leadership, customer focus, development and line manager performance. The survey achieved a record response rate of 90% and showed very strong colleague engagement (79%) and colleague enablement levels (79%) – increasing by 2 percentage and 1 percentage points respectively. They both remain above the global high performance norms. Strengths of the Company according to colleagues are safety, diversity, clear and promising direction, taking a responsible approach and innovation. In Asia, our scores are the highest for any region but have reduced by 1% and our biggest area of challenge is to address career development which is a key driver of colleague engagement.

U+, our in-house 'university', delivers online courses and face-to-face programmes, as well as compliance and induction programmes. In 2019, over 1.8 million items of online training were viewed, an increase of 41%, and c.800 pieces of learning content (videos, courses etc.) were created, covering topics such as sales, safety, technical and operational best practice, and compliance. All were developed in-house.

Colleague retention increased by 3.7 percentage points to 86.9% in 2019 (on a rolling 12-month basis). One of the key initiatives that has increased retention is our line manager training programme which develops line managers' skills and capability

Service and innovation

in areas such as coaching, giving feedback, communication and recognition – areas that our analysis showed were important drivers of colleague retention. To date, over 600 line managers have been targeted to undertake the programme from across 37 countries. Our 2019 Your Voice Counts survey showed that engagement levels of the teams whose managers undertook the training improved by double the average improvement across the Company.

Diversity and inclusion is a key part of our strategy. We have had a global grading and reward structure in place for several years, supporting the principles of fairness and equality. Nationally, the Office for National Statistics has said that for all employees men are paid on average 17.3% more than females. In our UK businesses in 2019 our Gender Pay Report shows a small difference in favour of female employees. The average difference was 6% (mean) and 2% (median). We have now reported our gender pay for three years over which time there has been no material pay gap between men and women.

Approximately 10,733 (25%) of our 42,933 colleagues are female and 32,200 (75%) are male (2018: 25% female). Of our senior managers 34 (26%) are female and 95 (74%) are male. This group comprises the members of our Executive Leadership Team (ELT) and all of their direct reports, excluding administrative roles. Our ELT has expanded this year (see page 66); on a like-for-like basis our female senior management would be 31%, up from 30% in 2018. Currently successors to the ELT are 26% female (2018: 24%) and our talent pipeline of corporate graduates comprises over 50% women. Three of our seven Board Directors are female. More information can be found in the Nomination Committee Report on page 88.

We have an extensive graduate and apprentice programme, especially in the UK and USA. In the UK, we are an Ofsted accredited provider (rated Good in 2019 and 2018) delivering level 2 customer service and more recently level 3 team leader/supervisor apprenticeship which was introduced in June 2019. We currently have over 400 apprentices in the UK and over 100 graduates.

In 2019, Rentokil Initial was rated Britain's Most Admired Company for Diversity and Inclusion, as well as overall winner in the Business Services Category. We were also the Top-Rated Workplace (UK private sector), by Indeed, the online recruitment platform.

In addition, colleagues past and present can give feedback on our culture on websites such as Glassdoor. At the end of December 2019, Rentokil Initial's UK overall Glassdoor score was 4.4 out of 5, ahead of the average of 3.5.

Our focus areas include innovation, quality of products and services, digital excellence and product stewardship. Customer service remained strong during the year with State of Service at 97.2% (target: 95%).

More than 120,000 Customer Voice Counts (Net Promoter Score) calls were made to customers globally, with the overall customer satisfaction score increasing by 2.4 points in 2019.

In the UK, the customer service review website Trustpilot features over 3,000 reviews for both Rentokil and Initial with an 'Excellent' 5-star rating.

Innovation is a core part of Rentokil Initial's DNA and underlines our credentials as the global leader in commercial pest control. We lead the industry in digital pest control and work with best-in-class partners, including Google and PA Consulting, to set increasingly high standards of service.

Our innovation programme approaches the development and introduction of new products to launch premium services, lower our costs and reduce our environmental impact.


Examples of leadership in innovation: PestConnect

The world's most advanced digital system for pest control using connected rodent control devices with embedded sensors and mobile connectivity, providing a proactive infestation risk management service, deployed in 25 countries.

 See page 31 for more information

Lumnia

In 2019, our range of insect light traps (the first commercial range to use LED lighting) received certification from The Planet Mark, a certification programme recognising commitment to continuous improvement in sustainability, for demonstrating 62% lower carbon emissions when compared with units containing compact fluorescent lamps. To date, over 100,000 units have been installed for customers.

 See page 24 for more information

Throughout this Annual Report, we highlight our leadership in innovation which is driving higher levels of performance for customers and creating value for shareholders.



Rentokil Initial's achievements are an example of the increasingly synonymous relationship between sustainability and innovation. Organisations such as Rentokil are in an exceptional position, in that as they develop new technologies such as Lumnia, they embed a culture of sustainable consciousness, decarbonise their product range, and empower

customers to do the same. As these innovations are put in the hands of their customers, the effect of each one is amplified hundreds and thousands of times, making the cumulative effect very powerful.

Steve Malkin
CEO & Founder of
The Planet Mark

Responsible Business continued

Environment

We are committed to reducing our environmental impact and this is supported by our key stakeholders including colleagues and customers. In 2019, we established seven work streams to help us take practical steps to deliver our long-term ambition to be at net zero carbon emissions ahead of the UK Government's target of 2050. Our environmental workstreams cover: vehicles, waste, supply chain, non-toxic services, consumables, energy, and workplace – culture and behaviours

Carbon summary

Vehicle emissions represented 83% of our total emissions in 2019. During the year, we undertook four separate country pilots (UK, Norway, France and Netherlands) on the cost and effectiveness of transitioning to electric and hybrid vehicles. We have also joined the EV100 group, which is committed to expanding the use of electric vehicles in all major cities by 2030. Other initiatives included vehicle efficiency programmes, such as route optimisation software (reducing distances travelled) and driver telemetry (information about driving behaviour).

Property-based emissions represented 17% of our emissions. We continued to consolidate our property portfolio through co-location, improving property energy efficiency by 55% since 2015. Nearly 46% of property emissions were generated by our processing facilities. In the France Workwear plants, a new three-year plan to reduce emissions has been put in place. In addition, through its waste separation programme, 92% of used clothes from the textile rental and maintenance business will now experience a second life, transformed into acoustic and thermal insulating materials for the building and automotive industries using an ISO-certified partner. The remaining clothing, with retro-reflective tape which cannot be recycled, is incinerated to generate energy for local factories.

In our French and Italian Hygiene businesses, dispensers are refurbished in order to reduce metal and plastic waste. In the last two years, we have refurbished over 100,000 units.

Emissions target achieved

We report our emissions intensity values, related to revenue at constant exchange rates, as an index. In 2019, this index improved over the prior year by 3.7%. Our five-year emissions target is to achieve a 20% reduction in the emissions intensity index by the end of 2020. Each of our major operations set vehicle fuel reduction targets as part of the plan to deliver this. As at the end of 2019, this had improved by 20.4% achieving our target a year early (see below).

Our absolute values of tonnes of CO₂e are reported using 2019 Department for Environment, Food & Rural Affairs (DEFRA) conversion factors and International Energy Agency conversion factors for non-UK electricity. Absolute energy and fuel-derived emissions increased by around 5% reflecting increased activity due to organic growth and acquired businesses; Ongoing Revenues increased by 8.6% in the year.

In 2019, our global energy consumption was 830,451 MWh (2018: 796,244 MWh) with UK energy consumption representing 10.4%. We continue to research and work with suppliers to identify alternative fumigants. Absolute emissions from the use of Sulfuryl Fluoride (a fumigant) were 548,449 tonnes in 2019 (2018: 363,339 tonnes; 2017: 481,390 tonnes; 2016: 720,322 tonnes). The year-on-year differences reflect the variability in customer demand. This year's increase was due to large commercial contracts and acquisitions.

In 2019, we improved our score in the Dow Jones Sustainability Europe Index by 7%. Our score of 78% for climate strategy (81st percentile) represented a 21% increase over 2018. Our 2019 carbon emission disclosure with the CDP achieved a C rating.

We are working towards becoming a signatory to the UN Global Compact, and in 2020 will seek to understand how best to enhance our climate-related reporting, including consideration of the recommendations of the Financial Stability Board's Taskforce on Climate-Related Financial Disclosures.

Absolute values of energy and fuel derived emissions – tonnes of CO₂e

Type of scope	2019	2018	2017	2016	2015
Scope 1	178,889	170,518	167,289	151,829	147,729
Scope 2	17,195	16,282	17,513	14,209	15,218
Scope 3	44,463	42,311	40,215	35,608	34,196
Outside scope	5,153	4,872	4,491	3,950	3,729
All scopes & outside scopes	245,700	233,983	229,508	205,596	200,872

Index of CO₂ emissions (intensity indicator)

Index of energy and fuel derived CO ₂ emissions at CER	79.64	82.66	88.46	89.64	100.00
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Index of CO₂ emissions – calculated as an index of kilograms per £m revenue on a constant exchange rate basis, providing an accurate like-for-like performance comparison, removing the variables of currency and divestments and acquisitions. The base year for this index was in 2015 (100).

Digital

Rentokil Initial uses digital technology to improve colleague experience, enhance services and reporting transparency for customers, and improve operational efficiency. This year, we have made two key senior appointments to drive forward the use of digital technology and artificial intelligence. This will enable us to continue to optimise digital technology in our business and build on existing partnerships with global technology leaders.

Our workforce is enabled with smartphone technology and a wide range of apps to improve efficiency.

Examples of digital expertise:

- ➊ PestID – an image-based smartphone app which identifies a pest from a photo taken by one of our technicians. Once identified, PestID will recommend the best tools to control the pest plus important information such as operational safety reminders.
- ➋ ServiceTrak – our field service app is now being used by 14,700 colleagues and approximately 10 million service visits were completed using the app in 2019. During the year, U+ modules were embedded into ServiceTrak, giving technicians instant online access to training.
- ➌ Command Centre – brings together the data from our Internet of Things devices with nine million records processed each day.
- ➍ myRentokil – this customer portal is now live in 40 countries and active at 96% of all commercial customers.

We are aware that, as our services become more digitalised, we must ensure the strictest data and IT security including data privacy. Information on our approach to data privacy can be found on page 53.

Like all organisations, the scale and complexity of cyber attacks against the business continues to increase and we continue to identify, monitor and mitigate the risk this presents (see page 57). During the year, our IT security systems and processes were upgraded and penetration testing exercises were undertaken to test our detection and response capability. An information security awareness programme is helping to reduce security incidents and improve awareness. In 2019 this included phishing simulation exercises (involving over 8,000 colleagues in critical user functions with over 23,000 simulation emails sent in a series of campaigns), workshops and online training packages. We also monitor external ratings using the Assessment of Business Cyber Risk framework provided by the US Chamber of Commerce and benchmark our cyber security where possible. We want to do the right thing to ensure that our business and our customers can operate securely and safely.

Communities

Our approach to charitable and community support is in line with our core purpose – to protect people and enhance lives. In 2019, we launched Rentokil Initial Cares using unclaimed dividends and shares to benefit worthy causes, see page 50.

Our key performance indicator in this area relates to charitable cash donations (including matched donations), which amounted to £206,000 in 2019 (2018: £202,000) – this excludes the provision of value in kind and management time, and colleague-generated donations and efforts.

Developing strong local businesses supported by global know-how is central to our strategy, and our community relations approach reflects this; focusing on global community and partnership support, local community support and investment, as well as our response to national disasters such as the recent bush fires in Australia. Local programmes reflect the local cultures and the passion of colleagues to support particular good causes.

Global Handwashing Day

Global Handwashing Day is an event that takes place in October every year to motivate people around the world to improve their handwashing habits, demonstrating how soap and water can provide an effective and affordable way to prevent diseases.

India

Our colleagues celebrated Global Handwashing Day this year, showing people in their local community how important hygiene is, encouraging good hand hygiene behaviours to prevent the spread of germs. The simple act of washing hands can reduce the risk of getting a stomach bug by as much as 47%. Colleagues also held awareness training for staff in other businesses. The Better Futures team were also out in full force in Chennai, teaching primary school children the benefits of good hand hygiene.

South Africa

Colleagues around the country visited schools, while the team in Cape Town visited their biggest Ambius customer to swab hands and mobile phones. As a result, hand sanitisers were put on contract for the whole building.

Vietnam

22 Rentokil Initial colleagues representing all parts of the business visited a primary school to help deliver hygiene and awareness training, particularly hand hygiene, and to show pupils and teachers how to minimise the risk of contracting diseases like dengue fever, spread by mosquitoes.

Nelson Mandela Day

In July every year, colleagues across South Africa donate 67 minutes of their time – one minute for every year of Mandela's public service – to make a difference in their local communities. This year, across South Africa, colleagues gave their time by supporting causes that helped people in need.

Cape Town

Our Accounts Receivable team collected sanitary towels to be delivered to schools in the area, building on their support last year to the national initiative to end period poverty across the country.

Johannesburg

Our Pest Control team carried out free pest control treatments at De Wetshof Retirement Village as part of a campaign with one of our customers and the City of Johannesburg to improve the environment of the village for its elderly residents.

Port Elizabeth

Colleagues visited Sinako We Can, a learning centre for youths and adults with special needs, and donated clothes, toilet paper and soap.

Kempton Park

Colleagues visited Casa Caritas, a centre for disabled children, where they installed new soap dispensers in bathrooms and kitchens. They also deep cleaned the bathrooms and donated cleaning products and other necessities.

RESPONSIBLE
BUSINESS

Taking the lead to support charitable causes around the globe



After trying our best to contact the relevant shareholders, we will now use the value of any unclaimed shares and dividends to support good causes, in line with our mission to Protect People and Enhance Lives. I would expect us to commit around £250,000 to good causes each year. I hope other companies will follow our lead and put their unclaimed dividends and shares to good use for charities.

Andy Ransom
Chief Executive

£200,000

Since 2011 Rentokil Initial colleagues have raised over £200,000 for Malaria No More UK through sponsored runs, bike rides and parachute jumps. According to Malaria No More, it costs just £1 to save a life.

Rainforest

Over the past two years, we have protected c.1,700 acres of rainforest in Papua New Guinea, preventing the release of carbon through deforestation to the equivalent of our annual carbon footprint.

20,000 people

Better Futures is Rentokil Initial's own community health education programme – providing hygiene training to children and adults in the poorest communities in Asia. More than 20,000 people have benefited since the launch of this public health initiative in 2013.

In 2019, we launched a new overarching charitable fund, Rentokil Initial Cares (RIC). This initiative uses the value of any unclaimed shares and dividends to fund partner charities and support our colleagues' own charitable efforts around the globe.

While the vast majority of dividends have been claimed by our shareholders, a small number of shareholders remain untraceable and so a small percentage of dividends remain unclaimed. In line with UK company law these dormant funds from both the shares and the dividends can be forfeited and returned to the Company¹, but instead of staying on the balance sheet, we have chosen to donate them in line with our purpose to protect people and enhance lives.

Approximately £1.25m is available and we aim to donate about £250,000 per annum.

In 2019, we supported a wide range of charities including Better Futures, our community hygiene programme in Asia, and Malaria No More UK. With Cool Earth, we protected c.850 acres of mature rainforest in Papua New Guinea to ensure that carbon (equivalent to our annual footprint) remains locked into the trees and not released through deforestation. We also supported a range of local charities. Each of our regions has a Rentokil Initial Cares Ambassador to co-ordinate and champion support, and the global RIC Committee, chaired by the Chief Executive, meets twice a year to ensure good governance against its rules.

In 2020, alongside Cool Earth, we will launch the Climate Dividends campaign to encourage other members of the FTSE to follow our lead and put unclaimed dividends to good use. It has been estimated that the value of unclaimed shares and dividends in the UK is around £9bn which could be put to good causes such as action on climate change.

Find out more at rentokil-initial.com



Human wellbeing on Earth depends on functioning rainforests and Cool Earth has one of the most effective means of conservation that goes hand in hand with community development.

Professor Dr Johan Röckström
Co-author of the 'Hothouse Earth' theory and Cool Earth trustee



Using unclaimed dividends to address climate change is a beautifully simple idea and it is typical that Rentokil Initial thought of it first. A smart company, who are showing great leadership to deliver a global impact. Thanks to Rentokil's ingenuity, the funding from Climate Dividends will ensure some of the world's most endangered forest is kept standing. I hope that where Rentokil leads other responsible companies will follow.

Frank Field
MP & Co-founder of Cool Earth

1. The Limitation Act 1980 allows unclaimed dividends to be forfeited after six years. Our articles of association provide a minimum time period of 12 years for any untraced shares to be forfeited.

Responsible Business continued

Section 172(1) statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this, s.172 requires a director to have regard, among other matters, to the:

- ❶ likely consequences of any decisions in the long term;
- ❷ interests of the company's employees;
- ❸ need to foster the company's business relationships with suppliers, customers and others;
- ❹ impact of the company's operations on the community and environment;
- ❺ desirability of the company maintaining a reputation for high standards of business conduct; and
- ❻ need to act fairly as between members of the company.

This statement intends to set out how our Board of Directors, both individually and collectively, has had regard to the above factors when undertaking their duties during 2019.

In discharging their section 172 duties, the Board has had regard to the factors set out above, although at times some factors may have been more relevant than others. Appropriate regard was also given to other factors considered relevant to the decision being made, for example our relationship with regulators, industry bodies and other business relationships. We acknowledge that every decision the Board has made will not necessarily result in a positive outcome for all of our stakeholders. However, by giving consideration to key stakeholder groups and aligning our activities with our strategic plan, as well as the Company's culture and values, we aim to act fairly, transparently and in the best interests of the Company over the long term. Our business model is set out on page 18, and the Q&A with our Chief Executive (page 4) and our Financial Review (page 118) show the key decisions and strategic developments in the year. In making their decisions and choices and in setting policies and strategy, our Directors also consider any associated risks when discharging their duties (see page 55).

We identify our key stakeholders as colleagues, customers, shareholders, communities and suppliers. We consider the environment to be strongly related to communities and they are often considered together, although we are ever more conscious that the environment also impacts our customers and suppliers and is of increasing importance to our colleagues as well. Further information on environmental considerations by the Board and the impact of colleague engagement can be found on page 77. We are aware that our impact can be negative as well as positive, for example as a result of the chemicals that we use and the greenhouse gas emissions that are involved

in providing services to our customers. We are engaging with suppliers and developing innovative technology to address this where practicable. Further details of how we engage as a company with all our key stakeholders is shown on page 22.

During 2019, a stakeholder mapping exercise was undertaken to ensure that the groups that we have identified as key stakeholders remain appropriate, to monitor engagement levels and identify opportunities for improvement where necessary (see page 76). For details of how our Board operates and the way in which we reach decisions, including the matters discussed and debated during the year, please refer to the Corporate Governance Report on pages 69 to 80. Details of how our Directors receive information on stakeholder engagement, their engagement activities during the year and the resulting impact are shown on pages 76 and 77.

A full list of the activities undertaken by the Board is provided on pages 73 to 74. We consider the principal decisions to be those decisions taken by the Board directly, which should not be delegated to either management or a committee of the Board, and which may have a potentially material impact on the Company's strategy, a stakeholder group or the long-term value creation of the Company. We have grouped the Board's principal decisions during 2019 into the following categories:

- ❶ financial results (the full and half year results and the Q1 and Q3 trading updates);
- ❷ capital allocation (the approval of the annual operating plan for 2019, the recommendation of the full-year dividend and declaration of an interim dividend);

- ❸ funding (the approval of an extension of the Company's Revolving Credit Facility and the use of Synthetic Borrowing Units);
- ❹ M&A activity (the approval of five acquisitions and one disposal);
- ❺ review of matters reserved to the Board;
- ❻ Board changes (the appointment of a new Chairman);
- ❼ supplier contracts (the renewal and approval of two fleet supply contracts);
- ❽ strategy review (the review of the Company's strategy for the next three years); and
- ❾ Company statements (the approval of the Company's modern slavery statement and gender pay report).

Examples of how the Directors have had regard to the matters set out in s.172(1)(a)–(f) when discharging their section 172 duty and the effect of that on certain decisions taken by them during the year can be found below and overleaf.

Our reputation is paramount to the success of our business as we rely on the satisfaction of our customers. We continue to monitor our culture (see page 20), recognising the important role it plays in underpinning the business's sustainable long-term success. We have a comprehensive set of policies and procedures in place to ensure high standards of professional business conduct, including the adherence to our Code of Conduct. More information on these policies can be found on pages 53 and 54, where the methods for monitoring compliance are also set out, and on our website at rentokil-initial.com/responsible-delivery. We strive to act fairly between shareholders of the Company at all times.

Disposal of CWS-boco joint venture interest

In June 2017, the Group formed the CWS-boco International GmbH (CWS-boco) joint venture with Franz Haniel & Cie. GmbH (Haniel), contributing its Workwear and Hygiene businesses in 10 European countries and retaining a 17.8% share in the joint venture, creating a leading European Workwear and Hygiene business which operated across 17 European countries.

During 2019, the Board considered whether to exit the joint venture, receiving briefing papers from management on the subject. As a major transaction, Board approval was required in accordance with the schedule of matters reserved for the Board. The Directors made sure to have regard in their decision-making, among other things, to the potential impact on the employees of the joint venture (which included many former Rentokil Initial colleagues transferred into the joint venture when formed), and Rentokil Initial senior management team members whose responsibilities included managing the joint venture interest. There had already been extensive consultation with colleagues and employee works councils at country and European level when the joint venture had been formed in 2017. As the exit would

not result in job losses nor change of responsibilities within the joint venture, only minimal impact on these stakeholder groups was anticipated, and none in relation to customers. CWS-boco would continue to source workwear and hygiene products from the Company's supply chain for at least a transitional period, minimising the immediate impact on suppliers.

The transaction was consistent with the Company's strategy of pursuing global leadership in pest control and hygiene and the desire to realise value for non-core workwear assets, for redeployment into the M&A programme, as well as reducing debt and supporting the dividend for shareholders. The Board considered the impact and treatment of the different revenue flows as a result of the disposal (the receipt of the sale consideration rather than annual dividend), and assessed the likely external perception of the transaction by investors and analysts.

The Board approved the proposal to exit the joint venture, which was announced on 31 July 2019. The financial impact is disclosed in Note B6 on page 151.

Governance, trust and transparency

Governance and policies

Our responsible business priorities are woven into our overall governance arrangements, the cornerstone of which is the Code of Conduct (available in local languages and supported by training programmes). The Code of Conduct is a fundamental commitment to comply with all applicable legal requirements and with high ethical standards and outlines responsibilities to colleagues, customers and to the Company. It highlights our determination to embed our values of service, relationships and teamwork and a culture of integrity across the Company.

We have a robust policy framework for each of the key sustainability priority areas set out on pages 46 to 49. Policies are reviewed periodically to ensure that they meet current best practice and legislative needs. Our technical and safety standards and practices often exceed the regulatory requirements where we operate. We have also refreshed and simplified our business continuity arrangements. By establishing clear policies and procedures in areas such as ethical conduct, human rights, data security and suppliers, and by reporting transparently on our progress, we can reduce risks to our business and our customers.

The Rentokil Initial Supplier Code was launched in 2019 and is designed to ensure that the standards of our suppliers are aligned to our Code of Conduct. The Supplier Code outlines the standards and controls expected within the operations of suppliers

of goods and services to the Rentokil Initial Group. This covers all aspects of business in the broad categories of people (health and safety, equality and fairness, human rights and anti-slavery), ethics (bribery and corruption, competition and anti-trust), environment, security and personal integrity.

Since March 2019, all individuals and companies who supply goods or services to the Group are required to acknowledge receipt of and compliance to the Supplier Code. Tangible aspects of the Supplier Code, such as safety standards, are inspected during the periodic audits of critical and major suppliers. The Supplier Code is available on our website in 13 languages.

Within our acquisition programme, rigorous due diligence, including sustainability criteria, is undertaken. Prior to purchase, a business is assessed for its ability to meet the Company's standards. Once acquired, Internal Audit teams make two visits within 100 days to ensure integration of Company policies and practices.

A full list of our key policies is available on our website, with further details provided in our Responsible Business Report online. A summary of key policies is provided in our non-financial information statement on page 54. We monitor our impact using performance metrics, which are summarised on page 45. Further details of our values and culture can be found on pages 2 and 20.

Management and compliance

Adherence is reinforced by an annual Letter of Assurance process, signed by senior management confirming compliance with corporate policies and the Code of Conduct. All senior managers are required to sign a letter to confirm they comply personally with key corporate policies and the Code, and that the colleagues for whom they are responsible are aware of and understand what is required of them, and that they are not aware of anyone within Rentokil Initial that is not complying with the Code. Details must be provided of any areas of non-compliance or uncertainty.

Monitored by the Company's Internal Audit team, it is supported by mandatory training on the U+ learning platform. A review of the process is provided to the Audit Committee each year (see page 87). The Internal Audit team also manages the confidential independent reporting channel Speak Up (see page 87 of the Audit Committee Report). The Chief Executive has Board responsibility for our responsible business approach, including climate-related issues.

Data privacy

We have established a Group and EU data protection compliance programme based on the requirements of the EU General Data Protection Regulation (GDPR). The core operational controls and compliance framework are underpinned by tools, systems, policies and processes. Privacy and data management considerations are implemented in project and contract

governance mechanisms. A privacy notice is available in 17 languages and 96% of managers in the EU, including the UK, have completed data protection training. Since implementation, functional training for teams such as marketing, HR, sales and IT has also been delivered; supplemented by support and guidance from a network of over 30 local privacy officers and privacy champions.

We have a Group Data Protection Officer who has embarked on a global data protection compliance programme to enable our businesses globally to adopt best practice data protection management. The global compliance programme is based on the high standards of GDPR and we have required that all businesses globally sign and abide by the terms of an inter-company data transfer agreement, which incorporates EU standard model clauses. This demonstrates that all businesses are committed to take privacy seriously. We aim to have established a global data protection programme by 2021.

Any identified data protection risks, gaps and requirements are reported by the Group Data Protection Officer via the Group General Counsel to the Group Risk Committee and the Audit Committee (see page 87). Metrics have been created to assess the compliance status of countries and regions based on data protection programme activities and risk levels associated with local regulatory requirements, enforcement actions and breaches.

Tax

Our tax strategy is aligned with our wider business strategy, which we believe creates a responsible and sustainable tax strategy that will enhance long-term shareholder value. Tax will be considered as part of every significant business transaction. When considering tax issues we will always seek to protect the Group's reputation and adhere to its Code of Conduct.

We aim to meet all of our legal obligations, filing all required tax returns accurately and on time and paying the correct amount of tax when due. We seek to deal with HMRC and other tax authorities in an open and collaborative manner, aimed at reaching agreement on tax issues on a timely basis and minimising the risk of disputes arising. We will not undertake transactions where the sole purpose is to create a tax benefit in excess of what is intended by the relevant legislation. We aim to comply with both the spirit and the letter of the law in relation to tax matters and we will not establish companies in tax havens where there is no economic substance.

We operate appropriate tax risk governance processes, including oversight by the Audit Committee and the Board. Our tax strategy applies to all Group business, sets out our approach to tax and can be found on our website. Our Board reviews our tax strategy annually.

Approval of new fleet contract

In June 2019, the Board considered a proposal to appoint, following a formal tender process, a new contract for vehicle leasing and fleet management services in the Netherlands. As a supplier contract whose total value of spend was above the set threshold, Board approval was required in accordance with the schedule of matters reserved for the Board.

The Directors considered, among other things, the economic efficiency and sustainability benefits that would be derived from the potential provider. Regard was had to the opportunities offered to undertake engine control unit remapping on the live fleet in order to improve performance and reduce carbon emissions, and expertise to support car policy reviews and electric vehicle strategy. Furthermore, as an existing supplier with a proven track record, there would be no disruption to the business or colleagues caused by changing supplier.

Following consideration of the anticipated financial benefits and the potential future opportunities offered by the supplier commitment, the Board approved the contract.

Responsible Business


continued

Non-financial information statement

An overview of our approach to environmental matters, colleagues, social matters, human rights, and anti-corruption and anti-bribery can be found in the table below with further details found throughout this Responsible Business section on pages 44 to 53. Details of our business model can be found on pages 18 and 19, and our principal risks are on pages 55 to 59. Our key policies can be found on our website.

Enabling **THE RIGHT PEOPLE** to do **THE RIGHT THINGS** in **THE RIGHT WAY**

Our approach and key policies	Outcomes of policies and impacts of activities	More information
Environmental matters		
Our Code of Conduct states that all our colleagues must conduct their work in a way that complies with environmental laws and minimises any adverse effect on the environment. Our Environmental Policy sets out our commitment to carrying out our business in an environmentally responsible way.	3.7% reduction in the emissions index in 2019. We mitigate our carbon emissions through our partnership with Cool Earth.	See page 48 for more information on environmental matters.
Colleagues		
Our colleagues are at the core of our business. Our Code of Conduct sets out our company standards and applies to everyone at Rentokil Initial. It includes sections on health and safety, equality and fairness, human rights and protecting personal information. There is nothing more important in Rentokil Initial than Ensuring Everyone Goes Home Safe at the end of their working day. Our approach to making sure this happens is set out in our Code of Conduct and our Health and Safety Policy . We aim to be an inclusive employer and have a wide range of policies including our Group Diversity and Inclusion Policy, Dignity at Work and Rights of Employees .	We aim to be an Employer of Choice and our c.43,000 colleagues are integral to our business model (see page 18). 0.53 Lost Time Accident rate in 2019. 10.99 Working Days Lost rate in 2019. 26% of our senior management are female.	Colleagues are one of our key stakeholders as set out on page 22. Our culture is described on page 20 and you can read more about our colleagues on page 46.
Social matters		
Our purpose is to protect people and enhance lives and, as well as making a meaningful contribution to the economy, we aim to support communities where we operate. Our Community Involvement Policy sets out our principles for positive engagement and our commitment to support colleagues' efforts to raise funds for good causes through a matched giving scheme. The Code of Conduct also contains a section on respecting the world in which we work.	£206,000 donated to charity in 2019 (excludes donations in kind).	Read more about our engagement with the communities in which we operate on page 23.
Respect for human rights		
We support the rights of all people as set out in the Universal Declaration of Human Rights. Our Human Rights Policy outlines the human rights principles that reinforce colleagues' expected behaviours to respect the human rights of colleagues and business partners. The Company may operate in countries with potential human rights issues but we would not tolerate any connection with abuse. As detailed in our Code of Conduct and our Supplier Code , we will only employ individuals who are working of their own free will and do not tolerate child labour, bonded labour or other forms of slavery in any part of our business or their suppliers.	No human rights violations were identified in 2019. We publish a Modern Slavery Statement each year which is available on our website.	Read more about our Code of Conduct and Supplier Code on page 53.
Anti-corruption and anti-bribery		
We expect our colleagues to maintain the highest standards of conduct and act with integrity at all times. Anti-bribery and corruption policy and controls are addressed within the Code of Conduct and a separate Anti-Bribery Policy , and these are reinforced by mandatory online training, reviews and supplier audits, tracking registers, and our ethics reporting system Speak Up.	c.16,600 Core Corporate Compliance training courses were completed by colleagues in 2019, with a 96% completion rate overall. There were no fines, penalties or settlements for corruption reported in 2019.	Read about Board oversight of governance and compliance on page 80.

 The icons used above correspond to our stakeholder groups as set out on pages 22 and 23

Colleagues Customers Shareholders Communities Suppliers

Risks and Uncertainties

Risk management approach

The Group's overall risk management approach, described on pages 86 and 87, is designed to provide reasonable, but not absolute, assurance at all levels of the Group that risks are properly identified and are being effectively managed. This includes the provision of appropriate mechanisms to ensure that issues and concerns relating to risk can be escalated up through the organisation effectively and confidentially.

The Group's business model has remained the same in 2019 as in 2018 (see page 18 for more detail). It incorporates a number of elements that moderate the risk profile of the Company, particularly as the portfolio accelerates its focus on Pest Control and Hygiene, which together represent 85% of our total business.

- ➊ Low capital intensity and high portfolio retention rates: our categories exhibit strong defensive qualities, as density and efficiency gains are reflected in margin growth.
- ➋ Local market operations: the limited dependency on cross-border flows of people or products reduces the impact of geopolitical risks such as Brexit, and foreign exchange risk is muted since revenue is earned and costs are incurred in local currency.
- ➌ The global nature and scale of the Group's operations limits exposure to the economic cycle in individual markets: the largest market, the United States, represents 38% of Ongoing Revenue at CER, with no other single market representing more than 12%.

Changes in risk profile of the Company in 2019

We continue to monitor existing and emerging risks regularly in both the Audit Committee (see pages 81 to 87) and the Group Risk Committee (see page 71), and take mitigating action as appropriate.

Areas where the risk profile of the business has improved in 2019 include:

- ➊ the Executive Leadership Team now includes dedicated leadership for IT, technical governance and health and safety (see page 66);
- ➋ higher retention rates for technical and Sales colleagues reducing recruitment costs and ensuring improving service levels; and
- ➌ successful completion of two CMA investigations.

Areas where our risk profile has increased in 2019 include:

- ➊ potential economic slowdown in a number of our key markets such as Germany, Italy and Spain;
- ➋ increased labour costs in markets approaching full employment such as the US, and increases in minimum wage costs in markets such as the UK, Spain and Indonesia;
- ➌ volatility of international markets due to factors such as China-US trade talks, Brexit and tensions in the Middle East, impacting exchange rates and other macro-economic factors;

- ➍ ensuring our technical standards are fully implemented across the business at all times, particularly in fumigation;
- ➎ ensuring payroll and employment regulations are fully implemented in line with local laws at all times; and
- ➏ increase in disruptive cyber attacks, especially in North America, and changing legislation on data retention.

Identified risks

The principal risks most relevant to the Group are described in the table below and on pages 56 to 59, together with mitigating actions.

Full details of our financial risks can be found in Note C1 on pages 152 and 153. The exact financial impact of one or more of our principal risks materialising will depend on the precise operational impact of the risk, its interaction with other risks and whether mitigating actions are successful in reducing the overall financial impact. However, as a rule of thumb, a 1% decrease in revenue, if not mitigated at all, would have an impact on operating profit and on operating cash flow of approximately £11m and £10m respectively.

The Group is exposed to other risks and uncertainties related to environmental (including the impact of climate change), political, social, economic and employment factors in the territories in which we operate. Additional risks and uncertainties not presently known to management or deemed to be of lower materiality may, if they manifest themselves, have an adverse impact on the Group's growth, profitability, cash flow and/or net assets.

Principal risks

Failure to mitigate against financial market risks

Our business is exposed to foreign exchange risk, interest rate risk, liquidity risk, counterparty risk and settlement risk.

Overall risk level ○

Trend ➡

Impact should the risk materialise

If any of the above risks materialise, this may have a negative impact on profitability, cash flow and financial statements, and may negatively impact financial ratios and credit ratings, impacting our ability to raise funds for acquisitions.

Mitigating actions

- ➊ Treasury policy to ensure that the Company has sufficient headroom to finance operations and bolt-on acquisitions.
- ➋ Review of Group core banks to safeguard lending commitment.
- ➌ Target credit rating of BBB and compliance with Investment Grade covenants.
- ➍ Treasury policy that sets parameters for foreign exchange and interest rate hedging.
- ➎ Treasury policy limits on counterparty exposures at Group and operating company level.

Performance measures to monitor risk

- ➊ Liquidity headroom at the year end above £700m
- ➋ Counterparty ratings above A-
- ➌ Monthly reporting against ratings metrics and financial covenants
- ➍ No unhedged foreign exchange positions above £0.5m; fixed interest > 50%; and matching currency of net debt to underlying profitability
- ➎ Monitoring of amounts outstanding against counterparty credit limits

Further information

Note C1 Financial risk management on pages 152 and 153

Key: ○ Low ● Medium ■ High ➡ No overall change ↗ Increasing ↘ Reducing

Risks and Uncertainties

continued

Failure to grow our business profitably in a changing macro-economic environment

The Company's three businesses (Pest Control, Hygiene and Protect & Enhance) operate in a global macro-economic environment that is subject to uncertainty and volatility.

Overall risk level ●

Trend ➡

Impact should the risk materialise

Changes in the macro-economic environment could have a number of different impacts on the ability of the business to grow profitably, to sustain recruitment and to deliver against targets.

Examples include:

- Recession and economic slowdown in some of our markets, e.g. Germany, Italy and Spain.
- Trend for government increases in minimum wage to exceed inflation.
- Low-growth economies with inherent cost inflation, where the Company has weak pricing power may make it difficult to maintain profitability.
- Growing market presence of multi-national competitors may increase the cost of acquisitions and drive down prices, impacting profitability.
- Increased market presence by facilities management companies may drive down prices and increase compliance costs.
- Shift to greater proportion of key accounts in some markets may drive down prices and make it difficult to maintain profitability.

Mitigating actions

- Regular review of our capital allocation model which is differentiated by line of business to ensure that scarce resources are directed to countries and businesses with the most attractive prospects, e.g. North America, Pest and Hygiene.
- Global Employer of Choice programme to ensure focus on the key priorities of the organisation, including recruiting and retaining critical talent and specialists in all markets.
- Working with governments and regulators on implementation of new regulations.
- Low-cost operating model driven by single-country management teams, back office savings programme initiated in 2019, focused IT investment to deliver efficient operations (see page 18).
- Local teams incentivised on driving up route density which delivers greatest margin growth for least incremental investment.
- Stock build to mitigate potential disruption from Brexit retained into 2020.
- Group Procurement team tasked to deliver economies of scale in IT, fleet, energy and logistics, and increasingly source materials and operational equipment on a global basis.
- Use of robotics in back office functions to automate manual administrative tasks in a cost-effective way.
- UK Property Care plan implemented to reduce costs and restore profitable growth.

Performance measures to monitor risk

- Group Ongoing Revenue growth 📈
- Group Organic Revenue growth 📈
- Revenue contribution from acquisitions
- Group Ongoing Operating Profit 📈
- Group Net Operating Margin
- Restructuring costs <£10m
- Free Cash Flow conversion 📈
- Net capital expenditure

Further information

Business model on page 18, Colleague and Shareholder KPIs on pages 12 to 15, M&A execution on page 7

Failure to deliver consistently high levels of service to the satisfaction of our customers

Our business model depends on servicing the needs of our customers in line with internal high standards and to levels agreed in contracts.

Overall risk level ●

Trend ➡

Impact should the risk materialise

If our operatives are not sufficiently qualified, or do not have the right skills, or we fail to innovate successfully, this may negatively impact our ability to acquire or retain customers, adversely impacting growth, profitability and cash flow.

Industrial action in key operations could result in diminished customer service levels; if prolonged, it could damage the Company's reputation and ability to secure or renew contracts.

In markets where overall employment rates are high, and/or our business is growing fast organically or via acquisition, we may have difficulty attracting and retaining key management of the right capability and the right calibre of operational personnel.

Mitigating actions

- HR development processes including high-quality leadership and development training, performance management, reward and incentives, roll-out of Employer of Choice.
- Relentless focus on safety by supervisors and frontline colleagues to maintain world-class SHE standards.
- Regular tracking of customer satisfaction and the perception of both customers and non-customers of Rentokil Initial, benchmarked against competitors.
- Dedicated Operational Excellence team to drive superior customer service, safety and technical standards and processes, monitoring and auditing against key metrics.
- Incentives for Sales and Service colleagues aligned closely with strategic priorities, based on delivering improved customer service levels, greater density and margin.
- Oversight of key industrial relations matters by Group HR Director and regular review by the Chief Executive for countries where industrial relations risk is elevated.
- In North America, continued implementation of IT re-platforming and integration of apps to help drive visibility of performance, improve customer satisfaction and operating efficiency.

Performance measures to monitor risk

- Sales colleague retention 📈
- Service colleague retention 📈
- The number of online training courses being developed
- U+ learning views
- State of Service 📈
- Customer satisfaction (Customer Voice Counts) 📈
- Customer retention 📈

Further information

Service and innovation on page 47, Colleague and Customer KPIs on pages 12 to 14

Key: ○ Low ● Medium ■ High ➡ No change ↗ Increasing ↘ Reducing

Failure to develop products and services that are tailored and relevant to local markets and market conditions

We operate across markets that are at different stages in the economic cycle, at varying stages of market development and have different levels of market attractiveness. We must be sufficiently agile to develop and deliver products and services that meet local market needs now and in the future.

Overall risk level ●

Trend ➡

Impact should the risk materialise

If we are not able to adapt to local business and consumer needs, our existing customers may choose not to renew contracts, or seek reductions in prices. This negatively impacts our ability to maintain or increase margins and cash flow.

Examples include:

- ➊ the need to adapt to changes to the regulatory environment that may ban certain products or service models from being used, such as permanent rodent baiting;
- ➋ the ability to respond to the expectations from customers and the wider populace for us to reduce our own environmental impact and support our customers in reducing their environmental impact; and
- ➌ the need to develop products that are networked and capable of being monitored in real time, or react to competitor technology developments that are disruptive to the market.

Mitigating actions

- ➊ Acquisition of targets with specific capabilities that address future changes in our markets, e.g. vector control.
- ➋ Continued development of the Power Centre to drive innovation in products and services and provide enhanced training facilities for the Group.
- ➌ Targeted investment in innovation to meet market and regulatory needs and defend against commoditisation, e.g. AutoGate, RapidPro and PestConnect.
- ➍ Provision of range of products and services for different customers needs including demand for more sustainable, recycled and non-toxic products, e.g. Lumnia and Entio.
- ➎ Category Boards oversee the roll-out of innovations at pace across our regional businesses.
- ➏ Investment in new digital platforms to provide improved marketing channels, customer portals and insight, e.g. myRentokil, mylnitial, and to generate enquiries and efficiently schedule each frontline technician's day, e.g. using Service+.

Performance measures to monitor risk

- ➊ Sales growth for key innovations such as Lumnia, AutoGate and PestConnect
- ➋ Percentage of job sales revenue from innovation
- ➌ Number of patents raised

Further information

Innovation in Pest Control on page 30, our 'big six' challenges on page 7, service and innovation performance measures on page 45

Failure to ensure business continuity in case of a material incident

The business needs to have resilience to ensure business can continue if impacted by externally induced incidents, e.g. cyber attack, hurricane or terrorism.

Overall risk level ●

Trend ➡

Impact should the risk materialise

Failure to service our customers may affect our ability to retain those customers and damage the Company's reputation. This may negatively impact growth, profitability and cash flow.

Examples of incidents that could impact our ability to service customers include:

- ➊ a significant cyber attack or IT failure which impacts e.g. our ability to plan efficient routing, or ability to invoice, and is not recovered quickly;
- ➋ fire or flood impacting our laundries (in Workwear) or warehouses (in Hygiene and Pest Control), preventing goods from being available to enable our technicians to service our customers;
- ➌ industrial action by employees;
- ➍ travel restrictions due to public health emergencies, e.g. from infectious disease outbreaks such as COVID-19 (coronavirus) or natural disasters; and
- ➎ restrictions on our ability to import and export goods to and from core markets due to border delays or new trade barriers.

Mitigating actions

- ➊ All countries and units maintain business continuity plans and IT disaster recovery plans.
- ➋ The majority of key data and applications are located in regional data centres with enhanced backup capability and resilience.
- ➌ Global programme to ensure patching is up to date and covers all IT assets.
- ➍ Data encryption and implementation of AirWatch (remote monitoring and security application) on laptops, tablets and mobile phones.
- ➎ Tools deployed in three main data centres to detect malicious behaviour and help prevent malicious files from spreading.
- ➏ Strong anti-phishing programme using phishing simulation tool to highlight risks to users.
- ➐ Annual penetration testing on all systems to test external firewalls and address any identified weaknesses.
- ➑ Annual inspections of key sites by insurers, on a rotating basis, to identify potential risks.
- ➒ Review of peers' experience at Group Risk Committee to benchmark our resilience, and improve mitigation actions.
- ➓ Advance shipments of goods from the UK to overseas businesses and holding additional stocks in border locations to mitigate any adverse impact of Brexit.

Performance measures to monitor risk

- ➊ Number of serious IT incidents and time taken to respond
- ➋ Actions arising from IT security self-assessments
- ➌ External testing and benchmarking of our IT security environment

Further information

IT security on page 48

Risks and Uncertainties

continued

Fraud, financial crime and loss or unintended release of personal data Collusion between individuals, both internal and external, could result in fraud if internal controls are not in place and working effectively. The business holds personal data on employees, some customers and suppliers: unintended loss or release of such data may result in fines or other criminal sanctions.		
Overall risk level ○ Trend ▼		
Impact should the risk materialise Loss of personal data of customers, suppliers or employees could, if significant, result in regulatory intervention which may result in substantial fines and damage to the Company's reputation. Theft of Company assets including property, customer or employee information, or misstatement of financial or other records via deliberate action by employees or third parties may constitute fraud and result in financial loss to the business, damage to the Company's reputation and/or fines by regulators.	Mitigating actions <ul style="list-style-type: none"> ➊ Ongoing programme to ensure that all businesses are compliant with data privacy requirements including, in Europe, the EU General Data Protection Regulation (GDPR). ➋ Mandatory online training by all senior employees, refreshed annually, for the Code of Conduct, preventing anti-competitive practice, preventing bribery and corruption, securing information and protecting privacy, avoiding conflicts of interest and preventing insider trading. ➌ Roll-out of Corporate Criminal Offence policy and training. ➍ Compliance with Code of Conduct and other key policies affirmed by annual Letter of Assurance by all senior management. ➎ Standardised financial control framework operating in all locations with a focus on risk prevention and mitigation; framework defined centrally and independently assessed at all material business units every year. ➏ International confidential Speak Up dedicated phone line and email address, monitored and followed up by Internal Audit. ➐ Significant frauds investigated by Internal Audit and lessons learned widely shared. 	Performance measures to monitor risk <ul style="list-style-type: none"> ➊ Completion rate for mandatory U+ training modules ➋ Data privacy programme (including GDPR) roll-out and implementation ➌ Speak Up investigations and remediation ➍ Key financial controls reviewed annually for key territories

Further information

Data privacy on page 53, Board monitoring and oversight on page 80, our responsible business approach on pages 44 to 54

Health, safety and the environment

The Company has an obligation to ensure that colleagues, customers and other stakeholders remain safe, that the working environment is not detrimental to health and that we are aware of and minimise any adverse impact on the environment.

Overall risk level ●
Trend ▲

Impact should the risk materialise The Company operates in hazardous environments and situations, for example: <ul style="list-style-type: none"> ➊ the use of poisons and fumigants in Pest Control; ➋ driving to and working at customers' premises; ➌ working at height; and ➍ exposure to needlestick injury/ bio-hazards from medical waste. Non-compliance with internal policies or industry regulations could lead to personal injury; substantial fines or penalties, including withdrawal of licences to operate; and reputational damage. Environmental risks may arise from former activities at sites currently operated by the Company or acquired by the Company.	Mitigating actions <ul style="list-style-type: none"> ➊ Robust health and safety (H&S) policies supplemented by the SHE Golden Rules and technical policies address higher risk and regulated activities, e.g. driving, working at height, fumigation or heat treatment. Policies and standards are reviewed regularly. Group technical and safety standards are often higher than local regulatory requirements. ➋ H&S officers appointed in all jurisdictions, supported by dedicated central team. ➌ Mandatory training of all relevant employees in safe working practices, including drivers and those working in hazardous environments, e.g. in high voltage areas or at height. ➍ Focus on implementation of Group fumigation and other technical standards in all new acquisitions. ➎ H&S considered as first item at every Board and senior management meetings; review of standardised H&S KPIs. ➏ Formal review of accidents and circulation of lessons learned; aggregation and sharing of 'safety moments' post-incident briefings among frontline colleagues. ➐ Monitoring energy-derived emissions and water usage including energy efficiency target of 20% reduction in energy intensity from 2016 baseline by end 2020. ➑ Strategy to further develop environmentally friendly approaches, e.g. lower pest control chemical use, recycling of hygiene units, piloting use of electric vehicles. ➒ 10-year goals being developed for energy usage, emissions, chemical usage, waste to landfill and consumables from sustainable sources. 	Performance measures to monitor risk <ul style="list-style-type: none"> ➊ Lost Time Accident rate III ➋ Working Days Lost rate III ➌ Total emissions ➍ Energy usage
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Further information

Key Performance Indicators on pages 12 to 15, Safety on page 46, Environment on page 48

Key: ○ Low ● Medium ■ High ➊ No change ▲ Increasing ▼ Reducing

Breaches of laws or regulations including tax, competition and anti-trust laws¹

As a responsible company we aim to comply with all laws and regulations that apply to our businesses across the globe.

Overall risk level Trend **Impact should the risk materialise**

Failure to comply with local laws covering bribery and corruption, anti-competitive practice, employment law, data privacy or financial and tax reporting requirements may result in fines or withdrawal of licence to operate, which could adversely impact growth, profitability and cash flow.


The Company operates across many different tax jurisdictions and is subject to periodic tax audits which sometimes challenge the basis on which local tax has been calculated and/or withheld. Successful challenges by local tax authorities may have an adverse impact on profitability and cash flow.

Mitigating actions

- ➊ Group Legal involvement in all acquisitions, including advising on risk and regulatory issues.
- ➋ Online U+ training completion rates reviewed by senior management monthly.
- ➌ Payroll audits carried out across all countries to ensure compliance with local employment and tax laws.
- ➍ Tax Policy reviewed and approved by the Board annually.
- ➎ All significant tax planning opportunities have to be pre-agreed with the Group Tax Director and Chief Financial Officer, with independent tax advice taken where necessary. Regular review of tax exposures.
- ➏ Group authority schedule in place and regularly reviewed.
- ➐ Group and local policies in place and regularly reviewed. Supplier Code rolled out to key suppliers in 2019.
- ➑ Requirement to report breaches in controls and/or laws to Group General Counsel and Head of Internal Audit. Follow-up by Group General Counsel of any significant regulatory breach in any country.
- ➒ Mandatory training on Code of Conduct and other core compliance topics, with annual refreshers, to instil a highly principled culture of ethical behaviour.
- ➓ All major business transactions or internal reorganisations are subject to a rigorous internal and external review.
- ➔ Review of all disputes that have the potential to be material, by value and/or potential reputational impact.

Performance measures to monitor risk

- ➊ Central monitoring of material litigation
- ➋ Tax provisions
- ➌ Completion rate for mandatory U+ training modules, e.g. Code of Conduct and competition law

 Further information

Governance, trust and transparency on page 53

Failure to integrate acquisitions and execute disposals from continuing business

The Company has a strategy that includes growth by acquisition, and has completed c.200 transactions in the past five years. These companies need to be integrated quickly and efficiently to minimise potential impact on the acquired business and the existing business.

Overall risk level Trend **Impact should the risk materialise**

If the Company fails to successfully integrate acquisitions into its existing organisation structures, fails to deliver the revenue and profit targets, or fails to deliver expected synergy savings, the business may not achieve the expected financial and operational benefits which may adversely impact growth, profitability and cash flow.


Business disposals also have to be managed efficiently to minimise risk to the businesses being disposed and the residual business.

Mitigating actions

- ➊ Integration plans considered by the Investment Committee as part of rigorous acquisition approval process. Integration activities and progress discussed during monthly performance reviews.
- ➋ Dedicated project teams established for largest acquisitions and disposals, e.g. the disposal of our interest in the CWS-boco joint venture, with clear deliverables over three months, six months and one year. Additional resources provided to US to support integration and replatforming.
- ➌ Tried and tested induction programme for first 100 days for all acquisitions.
- ➍ Continuity of management/leadership in acquired companies, where possible.
- ➎ Use of transaction structures including deferred consideration to mitigate deal risk.
- ➏ Group departments, e.g. Health and Safety, Legal, Insurance and IT, involved with acquisitions to drive integration plans and compliance with Group standards, especially when entering new geographies.
- ➐ Post-completion governance: formal post-acquisition review of performance of each acquisition by the Investment Committee against original business plan 12 months post-acquisition; Board post-investment review of aggregate investment in acquisitions every six months; Internal Audit review of acquisitions in new geographies within 12–18 months.

Performance measures to monitor risk

- ➊ Integration plans (30 days, 100 days, 1 year)
- ➋ Reviews of integration plans for specific large acquisitions
- ➌ Post-acquisition review completions

 Further information

M&A execution in our 'big six' challenges on page 7

1. Excluding health, safety and the environment – see separate risk on page 58.

Viability Statement

In line with provision 31 of the UK Corporate Governance Code, the Directors set out below the basis on which they have assessed the viability of the Group, over what period the viability has been assessed and the Group's formal viability statement.

In determining the appropriate time horizon over which to assess the viability of the Group, the Directors have determined that a three-year period is appropriate:

- ❶ It is consistent with the period reviewed by the Group Board in the budgeting and strategic planning process.
- ❷ It is aligned with the typical duration of one to three years of both the customer and supplier contract periods entered into by the Group.

Although the Directors have no reason to believe that the Group will not be viable over a longer timeframe, because of the degree of uncertainty, the period over which the Directors have a reasonable expectation as to the Group's viability is the three-year period to 31 December 2022.

The Group's principal markets and strategy are described in detail in the Strategic Report (pages 1 to 60). In order to assess the viability of the Group, the key factors affecting the Group's prospects are set out below:

- ❶ The Group is the leading global provider of pest control and hygiene services.
- ❷ The Group operates three core categories (Pest Control, Hygiene and Protect & Enhance) and therefore has some protection from category-specific issues.
- ❸ The Group operates in over 80 countries and therefore is relatively well protected from country or regional shocks. The Group's largest single country is the United States which contributes 31% of total Ongoing Operating Profit (excluding central costs).
- ❹ The Group has a large diverse customer base with no single customer contributing greater than 1% of revenue.
- ❺ A substantial proportion of revenue is derived from contract revenue (typically one to three years in duration). While contracts can be cancelled, this provides a level of downside protection in the event of economic declines and typically provides time to respond and react.
- ❻ The average initial contract duration is less than three years which provides the opportunity to renegotiate terms in the event of external market changes and cost increases. Most contracts are subject to annual price increases.

- ❶ While the Group is exposed to regulatory changes, particularly in Pest Control, these can provide an opportunity for the Group due to the investments in innovation and the Group's ability to fund investments to maintain compliance relative to our competitors. We are not aware of any regulatory changes in the medium term that present a significant threat to any of the categories we operate in.
- ❷ Climate change is an issue that could potentially threaten the viability of many organisations. Although there could be some impact on the way the Group operates in some parts of its business, for example from greater extreme weather events, climate change is also an opportunity as a warmer climate results in a longer or more intense pest season, as well as migration of pests to new areas.
- ❸ The business is not capital intensive and the majority of capital expenditure is correlated with revenue and so if revenue decreased there would be a corresponding reduction in related capital expenditure.

In making their assessment, the Directors have considered the current position of the Group and have taken into account the potential impact of the principal risks, described on pages 55 to 59, that could impact on the solvency and viability of the Group. The Directors have taken account of the Group's liquidity position, its committed and uncommitted banking facilities and its bonds issued under its Euro Medium-Term Note (EMTN) Programme, further details of which are set out in Note C1 of the Financial Statements. With headroom under its covenants and taking into account current credit metrics, the Directors are confident in the Group's ability to raise new finance, if required, assuming functioning capital markets.

In undertaking its viability assessment, as a base case, the Directors used the agreed budget for 2020 and longer-term plans for 2021 and 2022, which includes analysis of the forecast performance, including the following assumptions:

- ❶ revenue and profit growth in line with the Group's medium-term targets;
- ❷ no major changes to working capital;
- ❸ capex reflecting revenue growth;
- ❹ M&A spend in line with recent years;
- ❺ no additional capital beyond current committed debt facilities; and
- ❻ future dividend growth in line with current policy.

In order to assess the Group's resilience, a number of different scenarios have been modelled to test compliance with financial covenants and ratings metrics. These tests include:

- ❶ a scenario whereby a combination of the crystallisation of principal risks results in no revenue growth over the period and a 20% increase in working capital requirements;
- ❷ a scenario where the crystallisation of principal risks results in a prolonged downturn in trading performance resulting in a year-on-year reduction in profitability of 10%, with and without any mitigation; and
- ❸ a reverse stress test scenario caused by an unavoidable breach of the Group's financial covenants.

In each scenario, it is assumed that the Group is able to refinance its debt maturities as they fall due, in line with recent experience. In the first two scenarios, it was found that the Group was resilient and remained in compliance with its financial covenants, even with no mitigation. The Directors have also considered the key potential mitigating actions of reducing capital expenditure or expenditure on acquisitions and ultimately restricting dividend payments. Where mitigation was introduced, the requirement for financing to be raised on debt maturity was reduced significantly. In order to create a reverse stress testing scenario, the conditions were so severe that they were considered implausible.

Based on this assessment and having carefully considered the Group's current standing and the risks and uncertainties referred to above, in line with the UK Corporate Governance Code, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period ending 31 December 2022.

Corporate Governance

62 Chairman's Introduction to Governance

64 Board of Directors

66 Executive Leadership Team

68 Corporate Governance Report

81 Audit Committee Report

88 Nomination Committee Report

92 Directors' Remuneration Report

112 Independent Auditor's Report

Chairman's Introduction to Governance



As the business continues to grow, it is key that the Board maintains the highest corporate governance standards and works with management to continue the successful delivery of our strategy for all our stakeholders.

Richard Solomons
Chairman

Dear Shareholder

This is my first letter to you as Chairman of Rentokil Initial and I am honoured to have been appointed. I have now spent almost a year with the Company, having joined as a Non-Executive Director in March 2019 before becoming the Chairman in May.

I am grateful to all concerned for the smooth handover I received. I would particularly like to thank our former Chairman John McAdam whose leadership of the Board since 2008 contributed hugely to the many significant achievements of the last 11 years. I'd also like to thank Richard Burrows who stayed on as Senior Independent Director to manage the Chairman succession process and who has been a source of wise counsel and support to Board colleagues and the management team over the same period. The Company is in a far stronger position than it was when they joined the Board and we owe them a debt of gratitude for the part they played in that transformation.

Much of my first year has been spent learning about the business, meeting with colleagues, shareholders and key advisors and spending considerable time with the senior management team. Full details of my activities, including the two overseas trips I took to visit some of our businesses, are set out on page 78.

I have been impressed by what I have seen in my first year in the Board. I was particularly struck by the openness, enthusiasm and delivery focus of colleagues at all levels of the Company and the clarity of execution against strategy. I can see why the business has been so successful and I look forward to

working with the Board, Andy and his senior management team to make sure that its strategy continues to evolve and to continuing that track record of success.

I have set out below some of the key areas of focus for the Board during 2019. Full details of all our activities can be found in the Corporate Governance Report.

Safety, health and environment

Health and safety has for many years been the first agenda item at every Board meeting as it remains of critical importance to us as a business. We want to ensure that all our colleagues go home safe every day. Sadly, there were two fatalities from driving accidents this year, including one of our colleagues in Colombia. This reinforces why we must never be satisfied with our performance, even though our key safety metrics (Lost Time Accidents (LTA) and Working Days Lost (WDL)) are at all-time record lows and our safety performance overall remains world-class. Further details are available in the Responsible Business section on page 46.

While we will never be complacent, the Group's approach to health and safety is well established and extremely well monitored. The Company fully complies with all its regulatory disclosures on energy use and carbon emissions (see page 48). Nonetheless the Board and senior management both feel that our environmental strategy as a whole is less well coordinated and communicated to stakeholders than it could be. It will surprise no one that during the year interest in this

topic has increased sharply, with key investors asking more specific environmental, social and governance (ESG) questions and also from engagement with our colleagues and customers (see page 22). The Board therefore held a special session on the environment and sustainability at its strategy meeting in November. Rentokil Initial protects people and enhances lives – improving public health is at the heart of the services we offer our customers. We believe the Company and its supplier and NGO partners can therefore play a significant role in helping customers and communities address the challenges of a safer environment and mitigate the impact of climate change. The Board has considered the risks and opportunities for the Company from the impact of its services and operations and will monitor the seven practical workstreams management has established to take this agenda forward across the business (see our Responsible Business section on page 44). I look forward to sharing more on this with you in future.

Culture and stakeholder engagement

The Company's purpose is clear – to protect people and enhance lives. Our values of service, relationships and teamwork have been in place for many years and are firmly embedded in the DNA of our businesses. The insights we obtain from our employee survey (Your Voice Counts) enable us to assess the key elements of culture more explicitly. It was very encouraging to see our scores remained high or increased in almost all areas, including record highs in the key areas of engagement and enablement.

Full details of our culture can be found in the Strategic Report on pages 20 and 21.

The Board agreed in 2018 to build on existing engagement processes to comply with the new provision in the 2018 UK Corporate Governance Code on workforce engagement. In the course of 2019, we have considered workforce engagement on several occasions as well as the linked topics of culture and broader stakeholder engagement. We have discussed both the means of engagement in practice, and the flow of relevant information to enable the Board to monitor progress directly. The Board now receives detailed reports on culture twice a year, as part of reviewing our Employer of Choice agenda, and will continue to do so. We also undertook a stakeholder mapping process. Full details of this, and of the engagement undertaken by Directors during the year, can be found on page 76. Information on how, as Directors, we have complied with our duties to have regard to stakeholders (the section 172(1) statement) can be found in the Strategic Report on page 52.

Strategy

The Board's activities have had the Company's **RIGHT WAY** strategy and its objectives at their core. The Board again held its annual strategy meeting over two days in November. The agenda included a review of each of the businesses, the innovation and digital agendas, a review of the portfolio as a whole and, for the first time, a dedicated session on our environmental and sustainability strategy. This will be a key area of focus in 2020. It represents for us both a significant opportunity as well as containing risks and potential impacts for our businesses and stakeholders.

Board changes

2019 has been a year of significant changes in the composition of the Board, with changes of Chairman, Senior Independent Director and Remuneration Committee Chair in May 2019. Sir Crispin Davis also stepped down as a Non-Executive Director of the Board in June 2019. Further details of the composition of the Board are provided on page 69.

Despite the number of changes in a short period of time, I am pleased to say that the succession process has been smooth, and my induction thoughtful and thorough.

The Nomination Committee has spent time this year considering the composition of the Board and recruiting for a new Non-Executive Director. Full details of the process can be found on page 89 but I am delighted to confirm that Cathy Turner will be joining the Board as a Non-Executive Director and member of the Nomination and Remuneration Committees from 1 April 2020. She brings a wealth of executive and Board experience, and my Board colleagues and I look forward to working with her.

In addition, the Nomination Committee has spent time considering Executive Director succession and in particular the planned

Highlights of 2019

- ➊ Smooth Chairman and Board succession process
- ➋ Continued strong operational performance and delivery against strategy
- ➌ 9th in 2019 Hampton-Alexander Review for women on boards and in leadership
- ➍ Rated Britain's Most Admired Company for Diversity and Inclusion, with no material gender pay gap for the third year running

Areas of focus for 2020

- ➊ Maintain world-class levels of health and safety
- ➋ Increase direct Board engagement with key stakeholders
- ➌ Undertake a successful Board visit to North America in June
- ➍ Articulate renewed ESG strategy including a new post-2020 emissions target
- ➎ Delivery against our digital strategy

succession for Jeremy Townsend, who will be retiring from his role as Chief Financial Officer later in 2020. Following a detailed and thorough succession process involving both internal and external candidates, the Board selected Stuart Ingall-Tombs, currently Chief Financial Officer for North America, as Jeremy's successor, with the precise handover date to be finalised in the next few months. Further details on the process and Stuart's background are set out in the Nomination Committee Report on page 90.

Remuneration

Angela Seymour-Jackson succeeded Richard Burrows as Chair of the Remuneration Committee in May 2019. Angela has been a member of the Committee since 2012 and chairs two other listed company remuneration committees so was extremely well placed to take on this role. The Remuneration Committee engaged with key shareholders during 2019 and early 2020 on proposed salary increases for our Executive Directors. Full details can be found in the Directors' Remuneration Report.

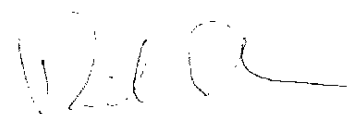
Compliance

I am able to report that, with the exception of three provisions, we have complied fully with the UK Corporate Governance Code during the year, with our full statement regarding this being found on page 68.

As a Board, we have reviewed and approved several key documents during the year, most notably the Company's 2018 Modern Slavery Statement and our Gender Pay Report for 2018. The Audit Committee, on behalf of the Board, also monitored the Company's payment practice reports for our two principal UK subsidiaries.

I would like to thank all our shareholders for their support for the Company and the Board and all our colleagues for their efforts that underpin its success. We look forward to the challenges in 2020 and beyond with both confidence and determination to deliver on the opportunities they present.

I would like to thank Andy, Jeremy and the senior management team for delivering another successful performance in 2019 and for the welcome they have provided to me as Chairman.



Richard Solomons
Chairman

26 February 2020

Board of Directors

Richard Solomons ^(N)
Chairman

Appointed: March 2019 and became Chairman in May 2019

Skills and experience

Richard brings to the Board deep operational and financial expertise combined with a strong commercial and strategic development track record. As former Chief Executive Officer of InterContinental Hotels Group plc (IHG), and prior to that Chief Financial Officer, he has broad experience of leading a successful multinational, as well as delivering growth in North America and Greater China, and the effective use of digital tools in service-led global businesses. Richard has a BA in Economics from the University of Manchester, trained as a Chartered Accountant with KPMG, and has seven years' investment banking experience in New York and London with Hill Samuel.

Current external commitments

- Senior Independent Director, Aston Martin Lagonda Global Holdings plc
- Member of the Board of Governors and the Finance Committee at the University of Manchester
- NED and Chairman of the Advisory Committee, Hotelbeds Group S.L.U. (Spain)

John Pettigrew ^{(A) (N)}
Senior Independent Director

Appointed: January 2018 and became Senior Independent Director in May 2019

Skills and experience

John is Chief Executive of National Grid with a strong economic background and engineering leadership experience. John has a strong track record of developing and implementing global strategies for profitable growth at National Grid. His skillset includes service provision to a large customer base, delivering world-class levels of safety performance and driving transformational change in highly regulated environments.

He has significant experience of the US market, having led the generation and distribution businesses of National Grid in North America. John holds a BSc in Economics, an MSc in International Economics, is a fellow of the Institute of Engineering and Technology and sits on the Presidents Committee of the CBI.

Current external commitments

- Chief Executive, National Grid plc

Andy Ransom
Chief Executive

Appointed: May 2008

Skills and experience

Andy has broad commercial experience gained in senior executive positions and legal roles. He joined Rentokil Initial from ICI where he held various management positions as a senior lawyer and head of the mergers and acquisitions team since 1987. In 2005, he was appointed to the executive management team and had operational responsibility for ICI's Regional and Industrial Division.

During his career with ICI he spent several years working in its businesses in the US and Canada. Andy joined Rentokil Initial in 2008 as the Executive Director of the global Pest Control business and became Chief Executive in October 2013. Andy is a graduate of the University of Southampton and a qualified solicitor. He is a patron of Malaria No More UK.

Current external commitments

- Vice Chair of Street League
- Senior Independent Director, Selecta AG (Switzerland)

Angela Seymour-Jackson ^{(N) (R)}
Non-Executive Director

Appointed: March 2012

Skills and experience

Angela is a qualified marketing professional and a member of the Chartered Institute of Marketing. She brings to the Board experience of leading highly customer-focused businesses and improving processes and functions for a mobile workforce gained in various executive and other senior roles at RAC Motoring Services, Aviva UK Life, Aegon UK plc and Norwich Union Insurance. She has over 20 years of experience in retail financial services. Angela holds an MSc in Marketing.

Current external commitments

- Deputy Chair and Senior Independent Director, GoCo Group plc
- NED, Janus Henderson Group plc
- NED, PageGroup plc
- NED, Trustpilot A/S (Denmark)
- Deputy Chair, Pika Insurance Services Limited

Jeremy Townsend
Chief Financial Officer

Appointed: August 2010

Skills and experience

Jeremy has extensive experience in audit and corporate finance gained in various senior and executive roles at Ernst & Young LLP, J Sainsbury plc and Mitchells & Butlers plc. Jeremy has a degree in Management Sciences from the University of Manchester and is a fellow of the Institute of Chartered Accountants of England and Wales and a former member of the Accounting Council of the Financial Reporting Council.

Current external commitments

- NED, parkrun Trading Limited and parkrun Global Limited
- NED, Galliford Try plc

Julie Southern ^{(A) (N) (R)}
Non-Executive Director

Appointed: July 2014

Skills and experience

Julie has extensive financial experience having had a long, successful career in a number of commercially oriented finance and related roles working for some of the world's best known consumer brands. Julie, through her role as Chief Commercial Officer at Virgin Atlantic Ltd and her various non-executive roles, has gained significant exposure to commercial, legal, HR and operational challenges and responsibilities.

Julie is a Chartered Accountant, having trained with Price Waterhouse, and has a BSc in Economics from Cambridge University.

Current external commitments

- NED, NXP Semiconductors N.V. (Netherlands)
- NED, easyJet plc
- NED, Ocado Group plc

Linda Yueh **A** **N** **R**

Non-Executive Director

Appointed: November 2017**Skills and experience**

As an economist, corporate lawyer and financial broadcaster, Linda brings a diverse range of skills to the Board, including strong commercial experience gained through her work in corporate law and previous non-executive positions. Linda has acted in various advisory roles, including for the World Bank and the European Commission. Linda has obtained a BA at Yale; Master's at Harvard; Juris Doctorate at New York University; and an MA and doctorate at Oxford. Linda is a member of the Policy Committee of the Centre for Economic Performance at the London School of Economics (LSE); Visiting Professor at LSE IDEAS; and Chair of the LSE Economic Diplomacy Commission.

Current external commitments

- Trustee of Malaria No More UK and The Courts Foundation
- Chair of the Royal Commonwealth Society
- Chair of The Schiehallion Fund Limited
- NED, Fidelity China Special Situations plc

Daragh Fagan

Company Secretary

Appointed: Group General Counsel in September 2013 and became Company Secretary in July 2014

Skills and experience

Daragh is a qualified solicitor, having trained at Herbert Smith, and has extensive experience in major listed multinational corporations, including those with significant businesses in emerging markets. Daragh previously worked at Thomson Reuters as General Counsel, Europe & Asia, and General Counsel, EMEA of Reuters Group plc. Before joining Reuters, he spent 10 years working in the oil and gas industry for the Italian multinational Eni SpA. Daragh has an MA in History from Cambridge University.

Current external commitments

None

Age of Directors**Directors' tenure**

at 26 February 2020

Professional background**Former Directors in 2019****John McAdam**

Retired as Chairman following the AGM in May 2019.

Richard Burrows

Retired as a Non-Executive Director and Senior Independent Director following the AGM in May 2019.

Sir Crispin Davis

Resigned as a Non-Executive Director in June 2019.

Director joining in 2020**Cathy Turner**

Joins the Board as a Non-Executive Director on 1 April 2020 and will stand for election at the Company's Annual General Meeting in May 2020. She is an experienced Non-Executive Director with considerable HR and remuneration knowledge and will become a member of both the Nomination Committee and Remuneration Committee.

Key

- A** Audit Committee member
- N** Nomination Committee member
- R** Remuneration Committee member
- Committee Chair

NED Non-Executive Director

Executive Leadership Team

Gary Booker

Chief Marketing, Innovation and Strategy Officer

Appointed: January 2018

Role

As Chief Marketing, Innovation and Strategy Officer, Gary has overall responsibility for business strategy, brand, innovation, digital, global account sales, and global marketing for commercial and residential customers.

Skills and experience

Gary's career includes former CEO and General Manager positions as well as strategy and innovation leadership roles for several high-profile businesses including Dixons Carphone, where he was Chief Marketing Officer and oversaw its Currys and PC World brands; O2 (Telefónica) in the UK; and Electronic Arts in San Francisco, where he gained strong experience across mobile and digital marketing. Prior to that Gary held senior roles at Dunlop Slazenger and Unipart. Gary holds an MBA in Strategic Marketing and a BSc (Hons) in Business Studies, Law and Psychology.

Chris Hunt

Group M&A Director

Appointed: July 2019

Role

Chris leads Rentokil Initial's efforts to identify, evaluate, negotiate and integrate acquisitions and disposals, ensuring that the deals add value.

Skills and experience

Chris joined Rentokil Initial in 2012 as Head of M&A and has completed more than 200 deals for the Group. Prior to joining Rentokil Initial, Chris held various senior roles at AstraZeneca plc, including Head of Finance at AZ UK's Marketing Company, Corporate Strategy Director and Group M&A Director, and prior to that was a Director at KPMG Transaction Services. Chris has extensive operational finance, business development and corporate finance experience. He is a Chartered Accountant and sits on the ICAEW's Corporate Finance Faculty Board. He holds a BA (Hons) in Accounting and Computing from the University of Kent, Canterbury.

Paul Cochrane

Managing Director, Asia

Appointed: March 2016

Role

Paul oversees our businesses throughout the Asia region.

Skills and experience

Paul joined Rentokil Initial in 1990 as Branch Manager of the Initial Hygiene business in New Zealand. He later became Managing Director of Rentokil Initial New Zealand & Fiji, Managing Director of Ambius in the UK, Managing Director of Initial Hygiene Pacific (Australia, New Zealand and Fiji) and then Senior Vice President of Rentokil Initial Asia before becoming Regional Managing Director for Asia. Paul has a diploma in Business from the University of Auckland and a Trade Certificate of Automotive Engineering from Manukau Institute of Technology in New Zealand.

Alain Moffroid

Managing Director, Europe

Appointed: March 2016

Role

Alain oversees our businesses throughout the Europe region.

Skills and experience

Alain joined Rentokil Initial in 2013 as Managing Director, Pacific and became Managing Director, Europe in September 2019. He joined from Unilever where he held a number of senior roles across multiple geographies. He has significant experience in marketing, sales and business development acquired during 23 years with Unilever in Europe, Asia and Pacific. Alain is a dual national Belgian/Australian and is fluent in English, French and Dutch. He holds an MSc in Business from the Solvay Business School, University of Brussels.

Vanessa Evans

Group HR Director

Appointed: January 2016

Role

As Group HR Director, Vanessa leads a team responsible for shaping and executing our Employer of Choice strategy, ensuring that we can attract, recruit, train, engage, reward and retain the talent we need to deliver on our business strategy and results.

Skills and experience

Vanessa has had a successful career with some of the world's best known consumer brands. She brings valuable business experience and expertise in human resources management. She joined Rentokil Initial from RSA Group plc where she was Group HR, Communications and Customer Director. Prior to that, Vanessa was Global HR Director at Lego and Head of UK HR at GAP. She is a Fellow of the Chartered Institute of Personnel and Development and holds a BA (Hons) in Geography from Bulmershe College, University of Reading.

John Myers

Managing Director, North America

Appointed: October 2013

Role

John oversees our businesses throughout the North America region.

Skills and experience

John joined Rentokil Initial in 2008 as President and Chief Executive of the Pest Control division in North America. Previously John held various senior management roles at Cintas Corporation. Prior to that, he was President and Chief Executive at BioQuest LLC. John has a diverse business background, with extensive sales, marketing and business strategy experience. He is a graduate of the University of Vermont where he earned a Bachelor's degree in Business Administration. He also holds an MBA from Mercer University in Atlanta.

Mark Purcell

Chief Information Officer

Appointed: April 2019**Role**

Mark's role is to ensure a 'safe and secure first' approach is applied to Rentokil Initial's global IT systems and infrastructure. With his team, he works alongside the regional and functional teams to ensure that the IT strategy and investment is aligned to business priorities.

Skills and experience

Mark joined Rentokil Initial in 1988. He later became Global IT Delivery Director, UK Hygiene and Textiles IT Director, Pest Control and Ambius Division IT Director, IT Director for UK & Rest of World, and then CIO Europe, before becoming Group CIO in April 2019. Mark has significant experience in business transformation, change management and project/programme management as well as expertise in M&A integration. Mark's early career was with the Civil Service where he held an executive officer position in IT.

Andrew Stone

Managing Director, Pacific

Appointed: September 2019**Role**

Andrew oversees our businesses throughout the Pacific region.

Skills and experience

Andrew joined Rentokil Initial in 2013 as Finance Director, Pacific, before becoming Managing Director, Pacific in September 2019. Previously Andrew had held a number of senior finance and sales roles at Unilever within Australasia. He has extensive commercial, finance and supply chain experience.

Andrew is a Certified Practising Accountant and earned Bachelor degrees in Economics and Law from Sydney University. Additionally, he holds a Master's of Management from Macquarie Graduate School of Management and a Master's of Professional Accounting from Southern Cross University.

Brian Webb

Group Operations Excellence Director

Appointed: August 2019**Role**

Brian is focused on driving technical and operational improvements across the Group alongside the leadership of the global procurement function and supply chain network.

Skills and experience

Brian joined Rentokil in 2011 as Supply Chain Director for Hygiene and Pest Control and has gained additional responsibilities including Group Procurement, Workwear Supply and European Operations over the years. His career has included roles in engineering, production management and operations, mainly in the food and beverage sector, with global companies such as SABMiller, Mars Confectionery and Sara Lee. Brian is a Chartered Engineer (CEng) with an MSc in Engineering from Witwatersrand University (South Africa) and an MBA from Henley Management College (UK).

Executive Leadership Team

The Executive Leadership Team (ELT) supports the Chief Executive in managing the business at Group level, overseeing safety, performance, operational plans and actions, governance and risk management.

The team was expanded during 2019 with the addition of three new members (Chris Hunt, Mark Purcell and Brian Webb), to provide dedicated leadership at ELT level for health and safety and technical governance, and IT leadership given the criticality of the digital agenda and investment in IT systems and infrastructure, and to reflect the importance of the M&A agenda to execution of Group strategy.

Andy Ransom, Jeremy Townsend and Daragh Fagan are also members of the Executive Leadership Team. Their biographical information can be found on pages 64 and 65. The Chief Executive chairs the Executive Leadership Team.

Phill Wood

Managing Director, UK & Rest of World

Appointed: October 2013**Role**

Phill oversees our businesses throughout the UK & Rest of World region.

Skills and experience

Phill joined Rentokil Initial in 2006, holding various senior Pest Control roles in Europe before his appointment to lead the UK businesses – Pest and Hygiene in 2009. He became Managing Director of UK & Rest of World in 2013. Prior to joining Rentokil Initial, Phill held a number of top management positions at Lex Services/RAC plc where he served for 15 years. Phill has extensive commercial and business development experience. He is a Chartered Management Accountant and holds a BSc (Hons) in Management Science from Loughborough University.

Corporate Governance Report

Statement of compliance

The principal governance framework applying to the Company is the UK Corporate Governance Code, the latest edition of which was published in July 2018 (the Code). The Code is published by the Financial Reporting Council (FRC) and the full text is available on its website at frc.org.uk.

The Company has complied throughout 2019 with all the provisions in the Code other than an element of provision 32, and provisions 36 and 38. Provisions 36 and 38 are remuneration related items which we will address in the next Directors' Remuneration Policy and provision 32 relates to Committee composition. A full explanation is provided below. Information on how the Company has applied the principles and complied with the supporting provisions during the year can be found throughout the Annual Report. Details of where key information can be found is provided below.

1

Board leadership and company purpose

The Directors of the Company are set out on pages 64 and 65.

Long-term value

Our business model is set out on page 18 and our strategy can be found in the business reports on pages 28 and 36. Principal risks are on pages 55 to 59. A description of how these have been considered by the Board throughout the year is given on pages 72 to 75.

Purpose and culture

Our purpose and values are set out on page 2 and a summary of our culture is provided on page 20. The Board's ongoing monitoring of the Company's culture and values is outlined on page 69.

Stakeholders

Our key stakeholders are set out in the Strategic Report on pages 22 and 23. The section 172(1) statement setting out how the Directors have had regard to stakeholders when undertaking their duties can be found on page 52. Details of how the Board understands the views of key stakeholders are provided on page 76.

Significant votes against a resolution

We did not receive any significant votes against resolutions put to shareholders at our AGM held on 8 May 2019.

2

Division of responsibilities

Role and independence of Directors

At least half the Board, excluding the Chairman, are considered independent. Full details are provided on page 69.

Board and Committee meetings

A table detailing the number of meetings and Director attendance for the Board and the Audit, Nomination and Remuneration Committee meetings held during 2019 can be found on page 72.

Directors' significant external commitments

Details of the Board's current external commitments are provided in their biographies on page 64. The Board's approach to external commitments and the significant external appointments considered during the year are on page 69.

3

Composition, succession and evaluation

The Nomination Committee Report can be found on pages 88 to 91.

Diversity and inclusion

Details of our diversity policy and key measurements are contained in the Responsible Business section on page 46. The Board's oversight of diversity and details of the Board diversity policy are provided in the Nomination Committee Report on page 91.

Director appointment and succession planning

The Nomination Committee has responsibility for ensuring the correct balance of skills, experience and knowledge, and oversees succession planning. Full details are provided in the Nomination Committee Report on pages 89 and 90.

Board evaluation

The Board, Board Committees and individual Directors undertake a review annually. A description of the process undertaken is provided in the Corporate Governance Report on page 79.

4

Audit, risk and internal control

The Audit Committee Report can be found on pages 81 to 87.

Risk reporting

Our approach to risk management and internal control is set out on page 55, along with the Group's principal risks. The Board's oversight of risk management and the internal control framework is set out on page 80 and further details on risks and controls are provided in the Audit Committee Report on page 86.

Other reporting requirements

The Board's approach to ensure a fair, balanced and understandable report is provided on page 80. The going concern statement can be found on page 81 and the viability statement is on page 60. The statement of Directors' responsibilities is on page 181.

5

Remuneration

The Remuneration Committee Report can be found on pages 92 to 111.

The current Directors' Remuneration Policy was approved by shareholders at our AGM in May 2018. A summary of the policy can be found on pages 109 to 111. Details of how the policy has been applied and how the Remuneration Committee has undertaken its duties can be found in the Directors' Remuneration Report.

Provision 32 states that the Remuneration Committee comprises a minimum of three independent Non-Executive Directors. Following the retirement of Richard Burrows, there was a period in 2019 where the Remuneration Committee only had two members. No meetings were held during this time and Julie Southern joined the Committee in November 2019 resulting in the Committee once again comprising three members (see page 96 for details of the Remuneration Committee composition).

Provision 36 of the Code states that the Remuneration Committee should develop a formal policy for post-employment shareholding requirements encompassing both unvested and vested shares. We currently have shareholding requirements for our Executive Directors while in employment as set out on page 103, and a requirement for Performance Share Plan awards to be held for two years post vesting, which includes post-employment. A formal post-employment policy will be developed in the next Directors' Remuneration Policy which is due to be proposed for shareholder approval in May 2021.

Provision 38 of the Code states that the pension contribution rates for Executive Directors, or payments in lieu, should be aligned with those available to the workforce. As set out in the Directors' Remuneration Report, the Remuneration Committee has been considering this change and the related investor guidance during 2019. It is intended that the pension entitlement for new Executive Directors will be reduced to be in line with the UK workforce and that this will be formally included in the next Directors' Remuneration Policy. In addition, we intend to put a plan in place to bring our incumbent Executive Directors' pensions in line with the wider workforce by the end of 2022. See page 106 for more information.

Board composition

The Board currently comprises a Non-Executive Chairman, two Executive Directors and four Non-Executive Directors. They are advised and supported by the Group General Counsel & Company Secretary and their key responsibilities are set out on page 71. Full details of the Board members who served during 2019 and in 2020 to the date of this report can be found on pages 64 and 65.

The division of responsibilities between the Chairman and Chief Executive is set out in writing. Non-Executive Directors have regular opportunities to meet with members of the executive management team (see page 76) and also have an annual meeting with the Chairman to allow discussion without executive management present. At least once a year, Non-Executive Directors meet under the leadership of the Senior Independent Director without the Chairman being present. In 2019, this took place in February. A Nomination Committee comprising all the Independent Non-Executive Directors and chaired by the Chairman has responsibility for managing the appointment process to ensure a formal, rigorous and transparent procedure for appointing Directors. Pro-forma letters of appointment and Directors' service contracts are available for public inspection on our website.

Richard Solomons joined the Company as a Non-Executive Director on 1 March 2019 before succeeding John McAdam as Chairman on 8 May 2019. Details of the recruitment process undertaken were provided in the Company's 2018 Annual Report. Richard Burrows also retired as a Non-Executive Director, Remuneration Committee Chair and Senior Independent Director at the conclusion of the Company's AGM on 8 May 2019. John Pettigrew was appointed as Senior Independent Director and Angela Seymour-Jackson as Remuneration Committee Chair to replace him. Sir Crispin Davis resigned as a Non-Executive Director on 30 June 2019. During 2019 a recruitment process was undertaken to appoint a new Non-Executive Director to the Board of Directors, which resulted in the appointment of Cathy Turner who will join the Board of Directors and the Remuneration and Nomination Committees in April 2020. Further information on appointment and succession planning can be found in the Nomination Committee Report on pages 89 and 90.

The Board considers that it and its Committees have an appropriate composition to discharge their duties effectively and to manage succession issues. The Board keeps its membership and that of its Committees under review to ensure that an appropriate balance is maintained.

External commitments

All Directors may serve on a number of other boards, provided that they can demonstrate that any such appointment will not interfere with their time commitment to the Company, nor represent a conflict of interest. Any new external appointment must be approved by the Board, where the nature of the appointment and the expected time commitment are considered. The significant external commitments of the Directors are shown in their biographical information on pages 64 and 65.

During 2019, the Board's governance procedures were updated to clarify that significant appointments, as referred to in Principle 15 of the Code, would be considered as a role with a listed company or a role with a time commitment equal to or greater than the time commitment of their current role with the Company. Currently Non-Executive Directors are obliged to commit at least 20 days a year and the Chairman is obliged to commit an average of two days a week to the Company.

In 2019, the Board approved the following significant appointments, as it was felt that the appointments would not affect the Director's availability or effectiveness in carrying out their responsibilities and duties as a Director at Rentokil Initial.

The significant external appointments (all non-executive) considered and approved by the Board during 2019 were:

- Andy Ransom's appointment to Selecta AG in February 2019;
- Angela Seymour-Jackson's appointment to Trustpilot A/S in March 2019;
- Linda Yueh's appointment to Fidelity China Special Situations plc in June 2019; and
- Richard Solomons' appointment to Hotelbeds in November 2019.

The issue of Board Directors becoming overcommitted by taking on too many potentially onerous positions, including the need to retain flexibility to deal with unforeseen events, is recognised and is monitored in line with published investor guidance. The fact that several of the members of the Board hold multiple non-executive positions has not presented any difficulties in their ability to manage potentially competing demands for their time. The Chairman typically attends all Committee meetings by invitation and Non-Executive Directors often attend too, even where they are not members of the relevant Committee. All Directors have demonstrated high levels of availability and responsiveness for additional meetings and discussions where these have been required.

Independence of Board members

The independence of Directors is considered upon appointment and subsequently reviewed as part of the individual Director performance evaluation process, to ensure that all Non-Executive Board members retain the necessary independence of judgement. This continues to be reflected in constructive challenge to the executive team and senior management at Board and Committee meetings, and during informal interaction outside those meetings.

All our Non-Executive Directors, other than the Chairman, have been determined by the Board to be independent, having retained their independence of character and judgement. In making this determination, the Board has taken into account indicators of potential non-independence as set out in the Code. No Director took part in the Board's consideration of their own independence. The Chairman was considered independent on his appointment. Details of the Directors' share interests in the Company can be found in the Directors' Remuneration Report on page 103. No current Non-Executive Director has served on the Board for longer than nine years. The length of tenure for each Director can be seen on page 65.

Any potential conflicts of interest are considered and addressed prior to any new external Board appointment. All potential conflicts are submitted to the Board for consideration and, as appropriate, authorisation in accordance with our Articles of Association and the Companies Act 2006. These are recorded on a register of conflicts which is noted at each Board meeting. No material conflicts have been declared. Further details of this process can be found in the Nomination Committee Report on page 91.

Culture

Our aim is to be both a world-class service company and a world-class Employer of Choice. Part of the duty of the Board is to monitor the values and culture which underpin such ambitions and to ensure that our culture is aligned with our business goals and is right for our people and purpose. On page 20 and 21 we set out the key elements of our culture and how we measure against these. As detailed on page 73 the Board now receives two updates a year on culture, our Employer of Choice agenda, and workforce engagement. They also consider other methods of measurement throughout the year as part of their ongoing engagement with stakeholders as set out on page 76.

Our approach to investing in and rewarding our colleagues can be found on pages 46 and 104.

Corporate Governance Report continued

Governance framework

The Board's governance procedures delegate the day-to-day management of the Group's businesses to the Chief Executive who in turn cascades authority to the wider management population through a documented Group authority schedule, setting out responsibilities, decision-making and approval powers of managers at different levels in the organisation. This schedule is reviewed annually by the Board. Details of the Company's Executive Leadership Team can be found on pages 66 and 67.

This framework, along with clearly communicated authority guidelines, provides the Board with confidence that the appropriate decisions are being taken at the appropriate levels and further allows the Board to ensure that its obligations to the Company's shareholders and other stakeholders are being met.

Industry Leadership: Linda Yueh attends GFSI Conference

The Global Food Safety Initiative (GFSI) provides thought leadership and guidance on food safety management across the entire supply chain. Every year, experts from retail, manufacturing, food service industries, governments and service providers meet at the GFSI Conference to share knowledge on changing demographics, evolving consumer demand and developments in science and technology. In February 2019, the 18th edition of the annual GFSI Conference took place in Nice, France with the theme 'Emerging challenges and the future of food safety'.

Rentokil Initial colleagues attend and the Company has sponsored the GFSI Conference for the last five years. As well as being a Diamond Sponsor and having an exhibition stand, our Non-Executive Director, Linda Yueh, spoke at a special

session on the critical macro-economic and key trends that will most impact food safety. Leading pest experts joined the discussion to explore the increasing risks posed to food safety from the continued growth of pest populations and demonstrated how Rentokil employed data and technology to combat emerging threats. The session was chaired by Gary Booker, Chief Marketing Innovation and Strategy Officer at Rentokil Initial, who revealed unique insights, discussed the biggest imminent challenges for the future of food safety and considered how best to prepare for them. The audience was made up of over 1,200 key decision-makers and leaders from across the food supply chain, including some of the world's biggest food brands, who attended from over 50 countries.

Photo courtesy of GFSI.

The Board of Directors

The Board's role is to govern the Company within a framework of prudent and effective controls that enables risk to be assessed and managed. It operates to ensure that we are executing against the strategy and delivering excellent operational performance and innovative services for our customers in order to create sustainable, long-term value for shareholders. The Board strives to operate in a constructive, ethical and transparent manner at all times and to set the tone for the Company from the top.

The Board is collectively responsible for the governance of the Company, undertaking its duties using clear authority and reporting governance structures. Specific tasks are delegated by the Board to its Committees for Audit, Nomination and Remuneration. Matters reserved for the approval of the Board are set out in writing and reviewed annually. They are available to view on our website.


A summary of key elements of the roles of the Board Directors and Company Secretary is set out opposite. Copies of the appointment letters for the Chairman and Non-Executive Directors are available on our website.

Board Committees

The Board delegates, under a clear division of responsibilities, some of its duties to Board Committees. Full details of the Committees' responsibilities and activities are detailed in their respective reports, and their terms of reference are available to view on our website.

Management Committees

Operating under delegated authority by the Board to the Chief Executive and Chief Financial Officer, these Committees each have specific remits and authority to approve decisions within set limits.

 View matters reserved for the Board, Committee terms of reference, and appointment letters at rentokil-initial.com/investors/governance

The Board of Directors

Chairman

Role and responsibilities

- Leading and managing the Board.
- Setting the agenda including discussion of issues of strategy, performance, accountability and risk.
- Providing constructive challenge to management.
- Setting clear expectations on culture, values and behaviours.
- Ensuring effective communication with shareholders and other stakeholders.
- Performance evaluation of the Board and Chief Executive.

Chief Executive

Role and responsibilities

- Recommending and executing strategies and strategic priorities.
- Managing operational and financial performance, including monthly performance reviews with all regions and identifying and managing risks to delivery of strategy.
- With the Chief Financial Officer, explaining performance to shareholders.
- Executive management capability and development.
- Overall development of Group policies and communicating the Company's values.

Chief Financial Officer

Role and responsibilities

- Supporting the Chief Executive in developing and implementing strategy.
- Supporting the Chief Executive in managing the operational and financial performance of the Group.
- With the Chief Executive, explaining performance to shareholders.
- Recommending appropriate financing, treasury and distribution arrangements.

Senior Independent Director

Role and responsibilities

- Leading the Non-Executive Directors' appraisal of the Chairman.
- Working with the Chairman on Board effectiveness.
- Providing an alternative channel of communication for investors, primarily on corporate governance matters.
- Being a sounding board for the Chairman.
- Chairing the Nomination Committee when it is considering succession to the role of Chairman of the Board.

Independent Non-Executive Directors

Role and responsibilities

- Contributing independent challenge and rigour.
- Assisting in the development of the Company's strategy.
- Ensuring the integrity of the financial information, controls and risk management processes.
- Monitoring the performance of the Executive Directors against agreed goals and objectives.
- Advising and being a sounding board for Executive Directors and senior management.

Company Secretary


Role and responsibilities

- Assisting the Chairman and Senior Independent Director in their evaluation of the Board's effectiveness.
- Advising the Board and its Committees on governance matters and managing effective corporate governance and compliance arrangements for the Board and the Group.
- Facilitating Board induction and development programmes.

Board Committees


Audit Committee

Provides effective financial governance with oversight of the Group's financial and narrative reporting, risk management and internal controls, and the external and internal audit process.

 Find out more on page 81


Nomination Committee

Ensures the correct balance, structure and composition of the Board and its Committees, and reviews Board and executive succession planning, talent programmes and diversity and inclusion.

 Find out more on page 88

Remuneration Committee

Reviews and recommends the executive remuneration policy to the Board, determines the remuneration packages of the Executive Directors and senior management, and considers workforce remuneration.

 Find out more on page 92

Management Committees

Disclosure Committee

Supports the Board's responsibility for the accuracy and timeliness of external disclosures and compliance with the Market Abuse Regulation.

Treasury Committee

Reviews and approves the capital structure and financing strategy as well as risk and cash management within set thresholds.

Group Risk Committee

Monitors the internal control environment and emerging risks externally. It reviews the effectiveness of the Group's internal policies and procedures for the identification, assessment and reporting of risks, meeting quarterly. Details of its discussions are reported to the Audit Committee.

Investment Committee

Reviews and approves investments below the threshold requiring approval by the Board, including M&A transactions, and expenditure on property and environmental remediation. It also conducts post-acquisition reviews of completed M&A transactions and reviews material litigation quarterly.

Corporate Governance Report

continued

Meetings and attendance

The Board met eight times during the year, all of which were scheduled meetings, and a Committee of the Board met five times, of which four meetings were in relation to the release of financial results and trading updates and one additional meeting was in relation to Board changes including Chairman succession. The membership and attendance at Board and Committee meetings during 2019 is shown below.

Board and Committee attendance in 2019

	Board	Audit Committee	Nomination Committee	Remuneration Committee	Overall attended
Number of meetings held	8	4	6	3	
Directors					
John Pettigrew	8/8	4/4	6/6	–	100%
Andy Ransom	8/8	–	–	–	100%
Angela Seymour-Jackson ¹	8/8	–	5/6	3/3	94%
Richard Solomons ²	6/6	–	5/5	–	100%
Julie Southern ³	8/8	4/4	6/6	2/2	100%
Jeremy Townsend	8/8	–	–	–	100%
Linda Yueh ¹	8/8	4/4	5/6	3/3	95%
Former Directors who served for part of the year					
Richard Burrows ⁴	3/3	–	2/2	1/1	100%
Sir Crispin Davis ⁵	1/4	0/1	0/3	–	13%
John McAdam ⁶	2/3	–	1/2	–	60%

Notes

1. Linda Yueh was unable to attend the Nomination Committee meeting in June 2019 and Angela Seymour-Jackson was unable to attend the Nomination Committee meeting in July 2019 due to conflicting commitments which could not be changed. Both meetings were unscheduled additions to the Board calendar.
2. Richard Solomons was appointed to the Board on 1 March 2019.
3. Julie Southern joined the Remuneration Committee on 7 November 2019.
4. Richard Burrows retired from the Board on 8 May 2019.
5. Sir Crispin Davis resigned from the Board on 30 June 2019. He was not able to join the meetings in January, February or May.
6. John McAdam retired from the Board on 8 May 2019. He was not able to join the Board and Nomination Committee meetings in May due to personal circumstances.

As in all cases where a Director is unable to attend a Board or Committee meeting, copies of all papers are still received in advance and the Chairman will seek the individual's views ahead of the meeting and provide a briefing on any relevant outcomes from the meeting.

Board activities in 2019

The Board agenda is set by the Chairman, with the assistance of the Company Secretary. Each Board meeting starts with a review of health, safety and environmental performance and the Board receives reports from the Chairs of the Nomination, Remuneration and Audit Committees following each Committee meeting.

The Chief Executive and the Chief Financial Officer present a report of business performance and key business activities at each meeting including investor relations, an M&A update and people developments. Business performance includes operational key performance indicators (KPIs) relating to non-financial measures such as customer service. In addition, the Board receives detailed presentations from each of the Regional Managing Directors of the Company and their Finance Directors over the course of the year. These review operational performance and the future strategy for the region, highlighting specific areas of progress or challenge, reviewing the financial and control environment, and presenting the opportunity for the Board to challenge management on any area. In 2019, the Board received presentations from each region, as well as an additional deep-dive review on our emerging business region of Latin America.

The Board agenda is designed to include strategic proposals, M&A activity and other material transactions, as well as legal and governance matters. Board activities are structured to develop the Group's strategy and to enable the Board to support senior management on the delivery of this strategy within a transparent governance framework. The table on pages 73 and 74 sets out an overview of the key activities undertaken by the Board during 2019.

Matters considered	Discussion and outcome	Find out more
Strategy and operations		
Strategic progress	The Board closely monitors progress against the Company's strategy and this is communicated to the Board at each meeting by the Chief Executive and the Chief Financial Officer's reports.	–
Strategy day	The Board held a strategy review over two days.	Board strategy review on page 75
Regional presentations	The Board received presentations from each of the Regional Managing Directors.	See page 72 for more information
UK & RoW business review	The Board held an in-depth session over two days on the UK & Rest of World business.	See page 75 for more information
French business review	The Board received an update on the business in France from the Regional Finance Director for Europe.	–
Annual operating plan	The Board approved the 2019 operating plan in January and considered the draft 2020 operating plan in December.	–
Contract approvals above set threshold	The Board considered and approved several supplier contracts during the year.	See page 53 for an example of this during 2019
Brexit	The Board received a further paper on the potential impact of Brexit on the business, updating previous analysis for the Board in 2017 and 2018.	See page 77 for more information
UK Competition and Markets Authority (CMA) investigations	The Board received regular updates during the year on the ongoing CMA investigations of two UK acquisitions.	–
Digital marketing	The Board receives an update on digital marketing performance at all meetings.	See page 31 for digital marketing in Pest Control
Governance and compliance		
Board changes	The Board (via its appointed Committee) approved various appointments and resignations of Directors during the year.	Board composition on page 69
Board evaluation	The Board discussed the reports from the 2018 performance review at its meeting in February 2019 and agreed key actions for the year. The 2019 performance review commenced in November.	Performance evaluation on page 79
Responsible Business Report	The Board approved the 2018 Responsible Business Report (formerly the Corporate Responsibility Report).	This report is available on our website
Governance procedures review and oversight	The Board annually reviews its governance procedures and practices. It also reviewed and updated the Company's Group Authority Schedule and noted the Company's 2019 charitable donations.	–
Conflicts of interest	The Board noted the most recent conflicts of interest register at each meeting, authorising potential conflicts if required.	Managing conflicts of interest on page 91
Corporate governance tracker	The Board reviews a forward-looking corporate governance tracker twice a year to identify forthcoming governance developments and to ensure that the Board is kept up to date and that necessary compliance actions are taken.	–
Responsible business review	The Board reviewed its role in relation to the Company's approach to sustainability and the duty of Directors to take wider stakeholders' interests into account. A dedicated ESG session formed part of the strategy review.	Environmental considerations on page 77
Stakeholder engagement	The Board considered the outcome of a stakeholder mapping exercise and potential enhancements to current practice, and received a schedule of workforce engagement events for 2020.	Our Stakeholders on page 22 and our Board stakeholder engagement on page 76
Company culture	The Board received two updates during the year on the culture of the Company, the Employer of Choice agenda and workforce engagement.	Culture on pages 20 and 69
Modern slavery	The Board approved the Company's Modern Slavery Statement for 2018.	This can be found on our website
Gender Pay Report	The Board reviewed and approved the Company's Gender Pay Report for 2018.	This can be found on our website

Corporate Governance Report

continued

Matters considered	Discussion and outcome	Find out more
Financial		
2018 financial results	The Board (or its appointed Committee) approved the 2018 Annual Report, Notice of Meeting and the preliminary results announcement. The Board confirmed that it was appropriate for the financial statements to be prepared on a going concern basis and approved the viability statement.	–
2019 Interim Results and Q1 and Q3 Trading Updates	The Board (via its appointed Committee) approved the 2018 Interim Results, confirming that it was appropriate for them to be prepared on a going concern basis, and approved the Q1 and Q3 Trading Updates.	–
Dividend	The Board recommended a final dividend for 2018 of 3.16p and approved an interim dividend for 2019 of 1.51p during the year, in line with our progressive dividend policy.	Dividend on page 121
Review of financial performance	The Chief Financial Officer presents a summary of financial performance at each meeting. In 2019, key areas of focus included performance against revenue, profit and cash targets, operating risk KPIs, M&A spend, share price performance, and funding and net debt status.	Financial Review on pages 118 to 121
Approval of treasury policies and funding	The Board reviews the Company's treasury policies annually and considers financing options when required. During the year, the Board approved the extension to the Company's revolving credit facility and the use of a synthetic borrowing unit instrument to reduce interest costs. The Board also received an update from the Group Treasurer at its meeting in December 2019.	See Note C1 on page 152 for more information
Investor relations	The Chief Executive updates the Board on investor relations at each meeting with key broker notes being circulated, and a more in-depth analysis provided at least once a year.	Board engagement with shareholders on page 77
Tax strategy	The Board considered and approved the Group's 2019 tax strategy.	This is available to view on our website
Issue of new shares	The Board approved the issue and allotment of six million new shares to satisfy the vesting of the Company's Performance Share Plan award.	Share capital on page 179
Mergers and acquisitions (M&A)		
Post-investment reviews	Twice a year, the Board assesses the post-acquisition performance of aggregate investment in acquisitions completed in the prior 12–30 months, including the delivery against business cases and execution of integration plans.	See principal risks on page 59
M&A pipeline	The Board receives an update on the status of current M&A negotiations including a pipeline report at all meetings.	–
Funding update	The Board received an additional briefing from the Chief Executive and Chief Financial Officer on M&A opportunities in 2019 and the implications on funding.	M&A on page 119 and Funding on page 121
Other major transactions (above £10m)	The Board considered and approved five acquisitions and one disposal above £10m consideration during the year.	See page 52 for an example
Monitoring and oversight		
Safety, health and environment (SHE)	The Board receives a SHE update at each meeting. During the year, it considered the 2019 SHE strategy and priorities, performance against the key LTA and WDL metrics, major incidents (including two fatalities), and emissions and energy intensity performance against the 2020 target.	Responsible Business on pages 46 and 48
Review of key risks and internal controls	The Board receives a report at the start of the year on the most significant risks facing the Group. It also reviews, on the recommendation of the Audit Committee, the risk management processes to capture the principal risks for disclosure in the Annual Report.	Risks and Uncertainties on pages 55 to 59
Reports from the Committee Chairs	The Chairs of the Audit, Nomination and Remuneration Committees provide a verbal report to the Board after each meeting.	–
Review of material disputes	The Board received a quarterly report of material claims and disputes.	–
Information security	The Board received an update on information security risk status and progress on security enhancements.	Digital on page 48 and data privacy on page 53
Market perspectives	The Board received presentations from each of its joint brokers during the year, and reviewed the change of broker to Goldman Sachs.	–

UK & Rest of World business review

Each year one scheduled Board meeting is held as part of a larger site visit to one of the Company's operations. This year, it was decided that the Board would remain in the UK and instead receive a series of in-depth presentations from the UK & Rest of World senior management team over the course of two days, taking the opportunity to focus on the Rest of World sub-regions in particular.

Following the Board meeting in June, the Board received presentations from the senior management team from the Rest of World region, which encompasses Sub-Saharan Africa, the Nordics, Caribbean, and Middle East, North Africa & Turkey (MENAT). Each presentation described the profile of the business in that sub-region, as well as health and safety performance, M&A opportunities, our Employer of Choice agenda, customer retention and deployment of innovation. The heads of each sub-region travelled to the UK to present in person, and sufficient time was allowed for questions and discussion after each presentation, as well as engagement with the Board over dinner in the evening.

On the second day, the Board received presentations on the business in the UK, Ireland and the Baltics. These included a detailed examination of the operating model, a financial review and a deep dive into the apprenticeship programme and wider Employer of Choice agenda. Deployment of innovation from AI and robotics in the back office to new business models and service lines were also showcased.

The Board was impressed by the calibre and energy of the UK & Rest of World team and the rigour and detail of the operating model and plans. It was clear how smaller markets could leverage best practice and innovation from the more established operations and there were clearly many further opportunities to grow in these markets, both organically and by M&A including new market entries in the Middle East and Sub-Saharan Africa in particular.

Board strategy review

In addition to regular scheduled Board and Board Committee meetings, the Board undertakes an annual strategy review. This is structured to follow a scheduled Board meeting and is spread over the course of two days in November. The agenda for the strategy day is reviewed with the Chairman and Board and agreed in advance, including specific strategic issues which have been raised at previous Board meetings or requested by the Board.


As in previous strategy days, the Board considered execution against the **RIGHT WAY** strategy over the six years since its instigation in 2013. The agenda was designed to examine, through a series of key questions and discussions, how to lead our sectors and drive further top-quartile performance over the medium term. Following Board feedback, additional time was allocated for discussion after each presentation, allowing the Board the opportunity to provide further advice, insight and challenge on the key strategic issues facing the business, as well as make any decisions required on future strategic priorities or items to be raised on the agenda of future Board meetings.

We are operating in challenging economic and political times with choices to be made around how we allocate our financial and human capital to best effect. At the strategy day, the Board looked at the key opportunities and challenges facing our core categories and key functions and how we plan to focus our efforts to optimise value in each of the relevant areas. The Board considered our business model (as set out on page 18) and for the first time held an extended look at the Company's environmental strategy (see page 77). Potential risks and opportunities were also considered. Further details on how the Company plans to continue to execute its strategy and to drive performance against our targets over the next three years can be found in the Strategic Report, with the medium-term strategic priorities for Pest Control on page 28 and Hygiene on page 36.

North America site visit

In June 2019, as part of his Board induction, the Chairman visited the Company's North America business in Charlotte, North Carolina. His visit over two days was arranged to coincide with a North America senior management team meeting. While in Charlotte, the Chairman took the opportunity to accompany both Ambius and Pest Control colleagues on customer site visits as part of two separate 'ride alongs', spending half a day with a specialist from each business. In addition to meeting with the leadership team, he took time to tour the Charlotte office and chat with team members.

During the visit, the Chairman also joined in on an established tradition whereby the senior management team, whenever they meet in Charlotte, serve lunch to their colleagues. This provided an opportunity for the Chairman to engage with colleagues from, among others, the Brand Standards business, the IT Service Desk, Accounts Payable, Pest Programme Management, Customer Service and Marketing in a relaxed and informal environment.

 See more examples of engagement with stakeholders on pages 76 and 77



It was a privilege to have our new Chairman of the Board visit our North America operations and see first-hand what our frontline and office staff do each day.

John Myers
Managing Director, North America

Corporate Governance Report continued

Stakeholder engagement

The Board considered the new 2018 UK Corporate Governance Code provision in relation to workforce engagement this year, alongside its monitoring of the Company's purpose, values and culture and the requirement to report on the Board's regard to key stakeholder groups in its principal decisions. These topics seemed best taken together given their linked, overlapping subject matter. The Board considered the Code's suggested methods of engagement: the appointment of a director from the workforce, the creation of a formal workforce advisory panel, or having a designated Non-Executive Director. However, having regard to the size, distribution and scale of our businesses it was felt that none of these options would be as effective in engaging with a dispersed, global workforce as enhancing the existing framework of local and regional engagement tools and metrics (such as our European Works Council). We now regularly report on performance against a set of key metrics (such as colleague retention, Your Voice Counts survey results and Glassdoor ratings) to the Board. We have also identified ways for individual Board members and the Board collectively to engage with target groups across the year.

Details of how the Directors receive information on our key stakeholders are set out opposite. During the year, the Board considered their duties as Directors and the new reporting requirements, in particular the requirement to produce a section 172(1) statement, and reviewed relevant guidance publications from the FRC and the UK government's Department for Business, Energy & Industrial Strategy. The Board undertook a detailed stakeholder mapping exercise to assess whether the identification of our key stakeholders remains appropriate, and to review and discuss any potential enhancements. The output from this can be found opposite and on pages 22 and 23. We are taking steps to ensure that Board materials reflect consideration of stakeholder impact more explicitly.

An important initial step was to increase colleague awareness of the Board and its role. Details of the Chairman's appointment and his visit to North America (see page 75) were shared with colleagues via the **RIGHT WAY** magazine, which is published on the Group intranet and available in eight languages. It was agreed that members of the Board and their profiles should continue to be published in the magazine, as well as a dedicated page being created on the Group intranet and a means, via email, for the Board to receive and respond to colleagues' questions. The answers will also be made available via the intranet and the **RIGHT WAY** magazine as appropriate.

The section 172(1) statement, which describes how the Board has regard to key stakeholders, can be found on page 52.



Colleagues

Information flow to the Board

- ➊ Health and safety reports
- ➋ Results of Your Voice Counts colleague survey
- ➌ Regional 'deep dive' presentations
- ➍ Employer of Choice update provided twice a year
- ➎ Key management changes are included in every CEO report
- ➏ Monitoring external measures such as Glassdoor
- ➐ Notification of any awards won or other external validation
- ➑ Gender Pay Report

Direct Board engagement

The Board meets with colleagues during site visits (see pages 75 and 78), undertakes 'ride alongs' with technicians and specialists, attends senior management meetings (Julie Southern attended the Executive Leadership Team meeting in November 2019) and has the opportunity to meet with members of the Company's graduate programme at the AGM. Members of the senior management team also regularly present to the Board.

The Chairman met with investors representing

c.20%

of our issued share capital

The Remuneration Committee Chair engaged with our

top 20

investors and proxy agencies



Customers

Information flow to the Board

- ➊ Regional 'deep dive' presentations
- ➋ Customer Voice Count (CVC) scores
- ➌ Strategy day review – especially product pipeline and innovation
- ➍ Material customer contracts requiring Board approval
- ➎ Monitoring external measures such as Trustpilot

Direct Board engagement

The Board has the opportunity to meet customers on overseas site visits and as part of a 'ride along' with technicians. In 2019, Linda Yueh also presented at the GFSI Conference, which is attended by existing and potential customers (see page 70). Due to the highly dispersed nature of our customer base, in which the largest customer represents significantly less than 1% of revenue, it is felt that this level of engagement is appropriate.

Future plans

Following the stakeholder mapping exercise undertaken in 2019, we plan to enhance Board engagement with stakeholders, and have developed a more formal and comprehensive schedule of workforce engagement opportunities for 2020. In addition, an aspirational target of each Non-Executive Director allocating the equivalent of at least one day per year to direct workforce engagement, for example by attending a town hall or senior management meeting or participating in a talent pool, was agreed for 2020. The agenda for the Board overseas site visit in 2020 will also be designed to increase the opportunities available for direct workforce engagement.

The Remuneration Committee consulted with key investors and proxy agencies during 2019 – see page 104 for more information



Shareholders

Information flow to the Board

- ➊ CEO report at each Board meeting includes an investor relations update
- ➋ Financial performance reports
- ➌ Analyst notes circulated
- ➍ Presentations on market perspectives by the Company's brokers
- ➎ Strategy day market perspectives session

Direct Board engagement

The Board engages directly with shareholders in a variety of ways, including writing to investors (letters of introduction for the Chairman and Remuneration Committee Chair were sent in 2019), calls or meetings held with the Chairman and Remuneration Committee Chair, consultation exercises (please see page 104 for details of the Remuneration Committee consultation undertaken in 2019), and through attendance at preliminary and interim results announcements, investor roadshows and seminars, Capital Markets Days and our AGM.



Communities

Information flow to the Board

- ➊ Health, safety and environment updates
- ➋ Regional 'deep dive' presentations
- ➌ Annual Report review
- ➍ Responsible Business Report review
- ➎ Updates on RI Cares (see page 51)
- ➏ Responses to disaster relief e.g. Australian bushfires in 2019

Direct Board engagement

Increased focus has been given to this area in relation to our ESG agenda and meetings with key partners Cool Earth and Malaria No More UK, but no direct engagement took place between the Directors and communities during 2019. Engagement levels were considered as part of the stakeholder mapping exercise undertaken and found to be appropriate. This will be kept under review.



Suppliers

Information flow to the Board

Principal engagement is undertaken by operational management, especially the central procurement and supply chain function and national procurement managers, with the Directors having oversight of this engagement and its impact by:

- ➊ the approval of our Modern Slavery Statement;
- ➋ the review of payment practice reports for our two principal UK subsidiaries; and
- ➌ the review and approval of major supplier contracts.

Direct Board engagement

There was no direct engagement undertaken during 2019. It is felt that, due to the nature of the business, this level of engagement compared with the other stakeholder groups is appropriate. This will be kept under review.

Environmental considerations

Like our customers at all levels, we are increasingly aware of the focus being given to sustainability. Sustainability and the environmental impact of our operations has been important to us for a long time, given that our businesses help deliver improved public health, safer food chains and higher standards of hygiene at work and in the home. This has, however, had an increased focus this year.

We have discussed sustainability at all levels from the frontline to the Board. In October 2019, for example, the Chief Executive discussed ideas for further improvement with the Company's EU Forum employee representatives, including reducing the use of plastics, recycling bait boxes, and possible alternative power sources. A key colleague suggestion was to discuss environmental issues in meetings alongside safety as the first item. This was discussed with the Board as part of the Chief Executive's report on the engagement and it is intended that this proposal be adopted across the Group.

More examples of our Board's engagement with stakeholders can be found on pages **70, 75** and **78**

SHE updates have been the first item on the agenda at each Board meeting since 2013 but, following discussion, the Directors requested that a dedicated session form part of the strategy day in November 2019 (see page 75 for more details about the strategy day). The session covered ESG and sustainability from a products, innovation, governance and operational impact point of view. The objective was to help shape a holistic (including stakeholder) approach as part of the Company's medium-term strategy. Our business purpose is to improve public health. In many ways, we already lead our sectors in offering sustainable and non-toxic solutions. It was therefore felt that there is strong alignment between our ESG and operational goals, as well as scope to articulate this more clearly for all our stakeholders. It is clear that this is increasingly important to colleagues, customers and investors as well as the wider community we operate in, and that there is more that we can do with suppliers too.

The initial stages of a 10-year vision with clear targets were considered and it is planned to develop this further in 2020.

Brexit and stakeholder considerations

The Board considered the potential impact of Brexit on the Group, the business continuity plans in place, and immediate potential impacts for colleagues, customers and suppliers. The Board reviewed the short-term measures to ensure that we had access to adequate stock and equipment in both the UK and Europe in 2019. These plans were disclosed as part of our interim and full-year results in February and July 2019, and discussed with investors and analysts as part of the respective results presentations.

Chairman succession

As part of the process for planning Chairman succession, Richard Burrows, who was Senior Independent Director at the time and led the search for a successor for John McAdam, and the Company Secretary held calls with a small number of key investors in January 2019 to receive any insight they were able to share on the composition of our Board and market perceptions, as well as the opportunity to seek feedback on any other potential candidates. Following his appointment in March 2019, Richard Solomons wrote to our top shareholders (comprising almost 50% of our issued shares) to introduce himself and held meetings where requested.

Corporate Governance Report continued

Director induction and training

The Board ensures that the Directors continue to provide suitable leadership for the Company through a regular performance evaluation process, training processes, governance briefings, Board succession planning and annual re-election by shareholders.

Following the appointment of any new Director, the Chairman, in conjunction with the Company Secretary, ensures that a full, formal and customised induction to the Company is made available. This process was reviewed and enhanced in 2019. Upon the appointment of Richard Solomons as Chairman, a tailored and more comprehensive induction programme was developed as is appropriate for such a role. Fuller details of the induction undertaken by the Chairman are set out below.

New Directors also undertake the same online induction modules in U+ (our online learning and development platform) as new colleagues on core compliance subjects such as our Code of Conduct, anti-bribery and corruption, competition law, information security and privacy.

The induction process typically takes place over several months and a questionnaire is completed by new Directors after 12 to 18 months to provide an opportunity for feedback, to review the effectiveness of the training, highlight areas for improvement and to provide an opportunity for any further development needs to be identified.

Directors are provided with ongoing opportunities to meet with colleagues (see Stakeholder engagement on page 76) and to receive additional briefings or training as required. Details of externally facilitated events and training are also circulated to Directors on a regular basis to allow them to participate in peer group discussion forums and seminars related to the listed company environment.

Chairman induction

On appointment, the Chairman was provided with the following materials:

- ➊ key policies, procedures and governance information about the Company, including the Code of Conduct, Board Governance Manual, Responsible Business Report and the Group Authority Schedule;
- ➋ details of the Group structure;
- ➌ analysis of the Company's key shareholders and share capital;
- ➍ recent broker notes;
- ➎ Board and relevant Committee minutes and Board and strategy day papers from the most recent meetings held;
- ➏ copies of the most recent Board and Committee evaluation reports;
- ➐ guidance on legal and regulatory responsibilities as a Director in a UK publicly listed company; and
- ➑ access to external advisors (auditors, legal advisors and brokers).

France site visit

In July 2019, the Chairman spent two days visiting the Company's French business. He first joined a meeting of the French senior management team. Following a brief introduction to the business, the agenda covered SHE, Customer Voice Counts, financial performance, M&A activity, and strategic priorities. On the second day, the Chairman visited a Workwear laundry site at Dammarie les Lys, about 30 miles south of Paris with approximately 90 full-time employees. Following a presentation on the business, the Chairman undertook a tour of the Company's Workwear facility where he was able to meet and talk with various colleagues and gain a deeper understanding of this Protect & Enhance business.

Timeline of Chairman's induction

March 2019

- ➊ 1 March 2019 – appointed as a Non-Executive Director
- ➋ Met with John McAdam, the incumbent Chairman
- ➌ Met with the Group General Counsel & Company Secretary
- ➍ Met with the Chief Financial Officer

April 2019

- ➊ Face-to-face meetings with individual Non-Executive Directors
- ➋ Met with the Chief Executive
- ➌ Attended the Executive Leadership Team meeting
- ➍ Introductory meetings held with three key investors

May 2019

- ➊ 8 May 2019 – appointed as Chairman, met shareholders at the AGM

June 2019

- ➊ Two-day visit to North America business in Charlotte, North Carolina (see page 75)
- ➋ Met with the Chief Executive
- ➌ Held numerous one-to-one meetings with senior management colleagues, including the Group Financial Controller, Head of Treasury, IT Director, Director of Risk & Internal Audit, and Head of Tax

July 2019

- ➊ Met with one of the Company's joint brokers, Barclays
- ➋ Two-day visit to French business in Paris (see below)

August 2019

- ➊ Visit to the Power Centre (see below)
- ➋ Met with the lead audit partner of the Company's external auditor, KPMG
- ➌ Held numerous one-to-one meetings with senior management colleagues, including the Group HR Director, M&A Director, Director of Strategy and Marketing & Innovation, Head of Communications, Head of Investor Relations, the Director of Risk & Internal Audit (designate) and the Regional Managing Directors for UK & Rest of World and Europe

Future plans

- ➊ Further meetings with advisors including Goldman Sachs and FIT Remuneration Consultants
- ➋ Ride along with frontline Service colleagues in the UK
- ➌ Attendance at a talent pool event (see page 90 on talent pools)
- ➍ Visit to North America in June 2020



I was particularly struck by the openness, enthusiasm and delivery focus of colleagues at all levels of the Company.

Power Centre visit

As part of their induction, all new Directors visit the Power Centre, our science, innovation and training academy in the UK. The Chairman visited in August 2019 and was given a tour of the facilities where he was able to meet with various colleagues who work there, receive insight into the innovative technology being developed and the research being undertaken to assist our technicians in the field, as well as learning about our Sales and Service training curricula.

Performance evaluation

A comprehensive evaluation of the Board, its Committees and each of the Directors is carried out annually, a process led by the Chairman and supported by the Company Secretary. In 2017, the Board evaluation was undertaken using an external independent facilitator, Lintstock. The review in 2018 was undertaken in-house using online questionnaires. Following Board discussion, it was agreed that the Company adopt a three-year cycle of Board evaluations, in line with Principle 21 of the UK Corporate Governance Code, and that the review in 2019 was therefore again conducted internally. The Board review in 2020 will be conducted by an external facilitator.

Following feedback and a discussion of the 2018 process, the questionnaires were reviewed and simplified, retaining key questions to allow year-on-year comparison. Some questions were amended to react to specific activities during the year, such as the appointment of a new Chairman. The review considered the performance of the Board, the Chairman, and the Audit, Remuneration and Nomination

Committees. The evaluation is initiated immediately after the strategy day in November with responses collated and analysed by the end of the year. There are then reviews of the results with the Chairman, Committee Chairs and Senior Independent Director ahead of a group discussion at the Board and Committee meetings in February. In addition, each Non-Executive Director completes a self-evaluation questionnaire and meets with the Chairman separately to discuss their individual performance during the year.

The 2019 performance review showed improved scores from the already high ratings in 2018, with particular improvements in the Board's understanding of competitors to the Company's businesses and of key stakeholders, better understanding and oversight of risk and risk management, and improvements in the review of M&A. Board succession activities including the Chairman succession were considered well handled.

The Board considered the output from the 2019 review at its meeting in February 2020 and agreed the actions for 2020 as detailed below.

2019 Board performance review

	Actions for 2019 and progress during the year	Actions for 2020
Operational business reviews	<ul style="list-style-type: none"> Focus on deep dives on key competitors <ul style="list-style-type: none"> Key competitors were highlighted as part of business presentations at the strategy day. Detailed review of execution of digital strategy, including artificial intelligence, at strategy away day <ul style="list-style-type: none"> Digital strategy was included on the strategy meeting agenda, and elsewhere. Consider organisational capacity and executive succession <ul style="list-style-type: none"> Resource is considered as part of each regional deep dive and the Nomination Committee continues to focus on senior management succession (see page 90). 	<ul style="list-style-type: none"> Detailed review of digital marketing and brand strategy Continue to review and monitor organisational capacity Monitor operational performance in India Enhance customer understanding and insight
Risk oversight	<ul style="list-style-type: none"> Focus on technical standards compliance including fumigation <ul style="list-style-type: none"> SHE and technical governance have been combined under the Group Operational Excellence Director, with enhanced compliance resource and audit programmes. Maintain focus on cyber security and data privacy <ul style="list-style-type: none"> The Board received a detailed briefing on information security during 2019. Improve understanding of the risk framework, management and mitigation efforts i.e. beyond identification <ul style="list-style-type: none"> The Audit Committee considered the Company's risk framework during 2019. See page 86 for more information. Refine and optimise culture and workforce engagement programme <ul style="list-style-type: none"> The Board received two in-depth briefings on culture and workforce in 2019. See page 86 for more information. Enhance engagement with proxy agencies and investor representatives <ul style="list-style-type: none"> Details of shareholder engagement can be found on page 77. Review Board induction programme <ul style="list-style-type: none"> The Board induction programme was enhanced during the year. Details of the induction undertaken by the Chairman can be found on page 78. 	<ul style="list-style-type: none"> Continuing focus on technical standards including fumigation, and scheduled Board review with Group Operations Excellence Director Monitor cyber security and data privacy performance Conduct external Board evaluation
Succession planning and talent management	<ul style="list-style-type: none"> Focus on smooth Board succession for Chairman, Senior Independent Director and Remuneration Committee Chair <ul style="list-style-type: none"> Succession plans were completed successfully in 2019 with induction and training provided wherever needed. Enhance longer-term executive succession planning <ul style="list-style-type: none"> Longer-term executive succession plans, including talent pools and gender diversity, were considered by the Nomination Committee during the year (see pages 90 and 91). Increase engagement of Board with senior management and talent pool candidates <ul style="list-style-type: none"> See page 76 for ongoing plans of colleague engagement. 	<ul style="list-style-type: none"> Ensure smooth Chief Financial Officer transition; enhance succession planning process for internal executive pipeline Induction of Cathy Turner and Board succession Engagement of individual Non-Executive Directors with senior management and talent pools

Corporate Governance Report continued

Monitoring and oversight

Policies

The Company has a robust Group-wide policy and procedure framework in place to supplement local policies or legislation. The content and appropriateness of policies are reviewed periodically by the relevant functional department head and approved by the Chief Executive. The cornerstone of this policy framework is the Code of Conduct. Our key policies are set out on page 54, with full details of our policies relating to ESG matters and their application being disclosed in our Responsible Business Report on our website. Key policies are also published on our website. In addition to the policies described there, the Company has a treasury policy in place to ensure that the Group has sufficient liquidity and to manage financial risk as outlined in Note C1 to the Financial Statements on page 152. In 2019, the Board reviewed and approved the Company's tax strategy which has been published on our website in compliance with the Finance Act 2016. More details on tax governance can be found on page 53.

Specific programmes are in place to support implementation of the Code of Conduct and underlying policies, national laws and regulations, and monitoring and reporting compliance with them. In some cases, dedicated specialists are in place to ensure that standards are set and complied with, for example in health and safety, IT security, legal, company secretarial, data privacy, regulatory compliance, pensions and tax. More broadly, e-learning training on our online learning and development platform U+ is used to ensure and track dissemination and adoption across the Group. Clear guidelines are provided to all colleagues on how to seek further advice or report concerns. Compliance is monitored through an annual Letter of Assurance process covering all Group senior management, through internal audit reporting on control incidents, and by monitoring reports via the Company's confidential Speak Up reporting process. Further details can be found in the Audit Committee Report on page 87. The Group Risk Committee considers current and emerging risks, reviews current arrangements and makes recommendations for enhancements as appropriate.

Board review of risk management and internal control

The Board has overall responsibility for maintaining sound systems of risk management and internal control that are both fully effective and ensure compliance with the UK Corporate Governance Code on internal control and risk management. The Board delegates responsibility for risk management to the Audit Committee where appropriate. Further details on the Board's responsibility for the risk management approach can be found in the Audit Committee Report on page 86.

Risks are considered in the context of long-term strategic and emerging threats, and shorter-term risks to the delivery of the annual operating plan. The Board has also assessed the viability of the Group over a period of three years, the potential impact of the principal risks and stress-testing financial forecasts for severe but plausible scenarios, and the anticipated effectiveness of mitigating actions. The Board has carried out a robust assessment of the principal risks facing the Company, including those that would impact its business model and future performance. The principal risks identified can be found in the Risks and Uncertainties section on pages 55 to 60, along with the Company's viability statement. Details of briefings on risk and control topics which were provided to the Board during 2019 can be found on pages 72 to 75.

The framework of risk management and internal control described in the Risks and Uncertainties section on page 55 is designed to manage and mitigate risk rather than eliminate the risk of failure to achieve business objectives. In pursuing business objectives, internal controls and risk management can only provide reasonable, and not absolute, assurance against material misstatement or loss. Review of its effectiveness is achieved through regular and transparent management reporting, the governance processes and external and internal assurance processes, and in the Audit Committee and Board's annual review of strategy and operational risks.

The Board has conducted a review of the effectiveness of the system of internal control for the year ended 31 December 2019 and confirms that:

- ❶ The Group has an ongoing process for identifying, evaluating and managing the significant risks faced by the Group.
- ❷ This process has been in place for the year under review and up to the date of approval of the Annual Report and Financial Statements.
- ❸ The process is regularly reviewed by the Board.
- ❹ The process operates in accordance with the UK Corporate Governance Code.

Fair, balanced and understandable

The Directors' statement on 'fair, balanced and understandable' can be found on page 182. The requirement under the Code to provide a fair, balanced and understandable assessment of the Company's position and prospects in its external reporting is considered throughout the process of producing the Annual Report and Financial Statements.

In order to provide the information necessary to comply with this requirement, the Board places particular reliance on the conclusions and recommendations arising from the Audit Committee's review of the Annual Report and Financial Statements, further details of which can be found on pages 84 and 85. In addition, the Board has oversight and takes into account the following elements:

- ❶ The Chairman and Chief Executive provide input and agree on key elements to be included which set the tone and balance of the Strategic Report.
- ❷ All contributors to the Annual Report are made aware of the requirement for content to be fair, balanced and understandable.
- ❸ Regular review meetings are held with the appropriate senior management to ensure consistency of the whole document.
- ❹ Extensive review and verification processes are undertaken by the appropriate departments and senior managers to ensure the accuracy of the content.
- ❺ Additional independent internal reviews are undertaken to ensure that any perceived lack of clarity, balance or understanding in the Annual Report is identified and addressed.

Annual General Meeting

The Board welcomes the opportunity to enter into dialogue with both private and institutional shareholders at the Company's Annual General Meeting (AGM) and views it as an opportunity to engage with all our shareholders on the performance of the business they own.

The 2020 AGM will be held at 2.00pm on 13 May 2020 in the Ascot Suite at the Hilton London Gatwick Airport, South Terminal Gatwick Airport, Gatwick, RH6 0LL. A separate Notice of Meeting, containing an explanation of the items of special business, has been sent to shareholders and is available on our website. In accordance with the UK Corporate Governance Code, the Directors are subject to annual re-election by shareholders and will, therefore, be stepping down and seeking re-election at the AGM. As Cathy Turner has been appointed since the last AGM, she will be subject to election by shareholders at the AGM, being the first such meeting since her appointment.

Biographical information in respect of the Directors, as well as information as to why the Board believes the Directors should be re-elected, can be found on pages 64 and 65 of this Annual Report and in the Notice of Meeting.

Find out more at rentokil-initial.com/investors

Read the 2020 Notice of Annual General Meeting at rentokil-initial.com/investors/shareholder-centre

Read the 2019 Responsible Business Report at rentokil-initial.com/responsible-delivery

Audit Committee Report

Dear Shareholder

I am pleased to present the report of the Audit Committee for the financial year ended 31 December 2019, which sets out how we have discharged our duties in accordance with the 2018 UK Corporate Governance Code and describes key activities and findings during the year. We have once again exercised the authority delegated by the Board to provide assurance for the integrity of financial reporting and to review the Group's internal controls. We have continued to discuss and challenge the assumptions and judgements made by management in the preparation of published financial information and to oversee the internal controls and compliance framework.

In last year's Annual Report, we identified the increased scale and complexity of business and tax arrangements, fumigation governance, and the implementation of IFRS 16 Leases as particular areas of focus for 2019. 41 acquisitions were completed in 2019 and we also disposed of our interest in the Haniel joint venture (see page 52 for details of the Board decision and regard for our stakeholders for this transaction). As a Group, we entered into three new jurisdictions during the year (Uruguay, Jordan and Sri Lanka). We continue to monitor the scale and complexity of the Group and review the scope, scale and resource of our internal and external audit processes to ensure that they remain

appropriate. Additional resource in the Internal Audit team has been assigned to North America to reflect the increasing scale and importance of that business to the Group.

While the financial performance of the Group continues to progress well, in the year there were several areas on which the Committee spent additional time. In Brazil, we identified some weaknesses in financial controls, and we received significantly more Speak Up reports in 2019 compared with the previous year (since most were routine employment issues, this appears mainly to reflect increased awareness of the reporting channel). We have also discovered some non-compliance with fumigation practices in Australia and India. Management response has been robust and swift. It has included voluntary suspensions and/or selected cessation of activity, disciplinary action against individuals where justified, retraining of frontline and supervisory colleagues, and reinforcement of the Company's strict operating and reauthorisation protocols. We remain vigilant given the risks involved in conducting this activity but the Committee is satisfied that compliance arrangements are adequate, and management response appropriate. It will continue to be a priority area of focus in 2020. Central accountability and alignment between technical governance and the SHE team has been reinforced under a new ELT-level Group Operations Excellence Director role who will present to the Board in 2020. Additional audit and governance resource in-region has also been provided to deliver training and monitoring more frequently and rigorously.

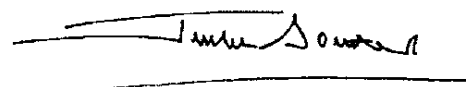
We have enhanced our coordination with management's Group Risk Committee to capture and track emerging risks and issues affecting peer companies, to supplement our risk management and identification processes across the Group's businesses and to ensure that they operate more dynamically. We have also explicitly considered the impact of climate change in the viability statement for the first time (see page 60).

As part of its update on the external audit at our meeting in November, the Audit Committee reviewed the implementation and impact of the new accounting standard IFRS 16 Leases. During the year, the Group also adopted the requirements of IFRIC 23 Uncertainty over Income Tax Treatments. More details on both can be found in the Notes to the Financial Statements on page 128.

We continue to be aware of the significant concerns about the quality of company audits and the audit industry more generally, which have been raised following the accounting failures at prominent British companies. During the year, we have considered the Kingman Review, examining the effectiveness of regulation, and the Brydon Review, which examined the purpose, scope and effectiveness of audit, as well as the report published by the CMA on the statutory audit services market. We will continue to monitor the recommendations emerging from these reviews and the potential impact on the audit market.

During 2019, we also considered the FRC's Audit Quality Review on KPMG and the other 'Big Four' external auditors and received a presentation from KPMG on how they are responding to the key issues identified. Taking into account all information available to us, both from internal evaluations of the standard of the audit undertaken and from external guidance and reviews, we remain satisfied that KPMG is performing its duties to a satisfactory level and there are no material areas of concern that have been identified. On this basis, we are once again recommending that KPMG be re-elected as the Company's auditors at our AGM in May 2020.

There have been no changes to the composition of the Audit Committee during 2019 and I am pleased to report that I believe that the Audit Committee continues to have the necessary balance of skills, experience, professional qualifications and knowledge as detailed on page 82.



Julie Southern
Chair of the Audit Committee

Committee members

- Julie Southern (Chair)
- John Pettigrew
- Linda Yueh

Highlights of 2019

- Reinforcing technical and safety leadership under Group Operations Excellence Director
- Improvements in internal controls assessment
- Progress on IT security

Areas of focus for 2020

- Technical governance including fumigation
- Transition in leadership of Internal Audit function and Group Financial Controller
- Continued evolution of North America finance team
- Payroll tax compliance
- Developing regulatory environment for audit

Audit Committee Report

continued

Role of the Audit Committee

The Audit Committee assists the Board in its oversight and monitoring of financial reporting, risk management and internal controls. The Audit Committee's focus is to review and challenge in these areas both with management and with internal and external auditors.

As is customary, the Audit Committee undertook a review of its terms of reference during 2019, making only minor amendments. These new terms of reference were approved by the Board in December and are available on our website. Due to the increased length and complexity of the terms of reference following their substantial update at the end of 2017, the Audit Committee now reviews its detailed activities on an annual basis to consider their alignment with each of the duties and responsibilities of the Audit Committee as set out in the terms of reference.

Membership and attendance

Julie Southern, Chair of the Audit Committee, is a Chartered Accountant and is considered to have relevant and recent financial experience. John Pettigrew has extensive commercial and operational experience in overseeing the financial affairs of substantial business undertakings and Linda Yueh has a strong economic and international background. The Audit Committee as a whole is, therefore, considered to have competence relevant to the sector in which the Company

operates. Full biographical details of the members of the Audit Committee are contained on pages 64 and 65. All Audit Committee members are independent Non-Executive Directors. The Audit Committee did not find it necessary to seek external advice during the year, other than through its usual dialogue with the external auditor.

The Audit Committee met four times during the year with the members attending all meetings with the exception of Sir Crispin Davis who was unable to join the Audit Committee meeting in February 2019. Full details of the attendance of the members during 2019 can be found on page 72. Meetings of the Audit Committee are attended by the Company Chairman, the Chief Executive, the Chief Financial Officer, the external auditor, the Director of Risk & Internal Audit, the Group Financial Controller, the Company Secretary (who acts as secretary to the Audit Committee) and the Deputy Company Secretary. The Audit Committee meets at least once per year separately with the Company's auditor, KPMG LLP, and the Director of Risk & Internal Audit without executive management present. In 2019, one such meeting was held, with another scheduled meeting not taking place with the agreement of all parties. The Chair of the Audit Committee also meets periodically with the external auditor and the Director of Risk & Internal Audit. The Chair of the Audit Committee reports to the Board on the activity of the Audit Committee and any matters of particular relevance in the conduct of its work.

Activities of the Audit Committee in 2019

In 2019, the Audit Committee considered the following key areas:

Matters considered	Discussion and outcome	Find out more
Financial reporting		
Financial reporting	The Audit Committee reviewed the 2018 Annual Report and the Company's Interim and Annual Financial Statements and received reports from both the Group Financial Controller and the auditor on the significant financial reporting judgements relating to each statement.	Financial reporting on page 84
Key accounting matters	The Audit Committee considered key accounting matters, including Alternative Performance Measures, the implementation of new accounting standards, taxation, pensions and acquisition accounting in relation to the Company's financial results for 2018 and 2019.	Significant issues and judgements on page 84
Other financial reporting matters	The Audit Committee reviewed the going concern analysis, the viability statement and the internal control statement for recommendation to the Board.	Other financial reporting matters on page 85
Finance systems programme	The Audit Committee received an update from the Chief Financial Officer and the Finance Development Director on the status of the ongoing finance systems implementation project.	Regional performance in North America on page 119
External audit		
2018 financial statements	The Audit Committee received a report from the auditor on the results of the audit of the 2018 Financial Statements, considering key judgements and risks. The letter of representation was also reviewed and recommended to the Board for approval.	—
Independence	In February 2019, the Audit Committee undertook a review of the analysis setting out the basis on which KPMG LLP continued to meet the appropriate professional standards of independence as auditor to the Company.	Auditor independence and objectivity on page 86
External audit appointment and evaluation	The Audit Committee reviewed and approved the terms and scope of the audit engagement for the annual and interim financial statements and undertook a review of the effectiveness of the 2018 external audit process. The Audit Committee recommended the reappointment of KPMG at the AGM in May 2019.	Effectiveness and tenure on page 86
Audit strategy	The Audit Committee considered the audit strategy for the 2019 audit, including the key areas of focus, materiality levels, scope and coverage at its meeting in July.	External audit on page 85
Audit Quality Review	The Audit Committee considered the FRC's 2019 Audit Quality Review.	External audit on page 85
Future of the audit profession	The Audit Committee considered and will continue to monitor recent publications, market reviews and recommendations regarding the future of the audit profession in the UK.	—

Matters considered	Discussion and outcome	Find out more
Internal controls and risk		
Internal control framework	The Audit Committee reviewed the effectiveness of the internal control and risk management framework.	Risk management and internal control on page 86
Control environment	The Audit Committee received and reviewed matters relating to the internal control environment provided by the Director of Risk & Internal Audit and reviewed the Group Risk Committee minutes.	Risk management and internal control on page 86
Internal Audit investigations	The Audit Committee reviewed the outcome of Internal Audit investigations, including the most significant issues raised in Internal Audit reports and received updates on the status of resolution of issues raised.	Internal audit on page 87
Group risk	The Audit Committee reviewed the Group risks and actions to enhance their measurement, monitoring and mitigation actions, including approval of the principal risks disclosed in the 2018 Annual Report and consideration of those for the 2019 Annual Report.	Principal risks on pages 55 to 59
Financial controls	The Audit Committee reviewed the results of the financial controls testing carried out across the Group by the Company's auditor, KPMG LLP.	Risk management and internal controls on page 86
Internal Audit	The Audit Committee received and reviewed the conclusions and themes emerging from Internal Audit reviews conducted during the year and approved the Internal Audit Plan for 2020 in conjunction with the Board's strategic review and operating plan for the year.	Internal audit on page 87
Governance and compliance		
Regional 'deep dives'	During 2019, the Audit Committee received presentations from the Regional Finance Directors of the North America and Pacific regions. These provide detail on the financial reporting for the region and the control environment in their businesses.	–
Tax	The Audit Committee considered and recommended the Group's 2019 tax strategy for approval at its meeting in November and received a report from the Company's Tax Director as part of its review of financial results for 2018.	Our tax strategy can be found on our website
Litigation	The Audit Committee reviewed reports of all material litigation and disputes provided by the Group General Counsel at three of their meetings.	–
Disclosure Committee oversight	The Audit Committee reviewed a report of the Disclosure Committee's activities during the year and its terms of reference.	–
Letter of Assurance	The Audit Committee reviewed a summary of the returns of the annual Letter of Assurance provided by the senior country, regional and functional management including any actions proposed as a result of those returns.	Governance and compliance on page 87
Terms of reference	The Audit Committee undertook its annual review of its terms of reference.	These are available on our website
Performance review	The Audit Committee undertook its annual review of the effectiveness of the Committee.	Effectiveness review on page 87
FRC thematic review	The Audit Committee considered a letter received from the FRC and the Company's response.	Other financial reporting matters on page 85
Payment practices	The Audit Committee noted and discussed the payment practice reports for our two principal UK subsidiaries submitted during 2019.	These are published online at gov.uk

Audit Committee Report

continued

Financial reporting

The annual report should provide the information necessary for shareholders to assess the Company's position, performance and prospects and, as a whole, should be fair, balanced and understandable. The Audit Committee considered closely the judgements and decisions taken by the management team in the preparation of the Financial Statements. The sections below set out the significant issues and judgements that were applied in the 2019 Annual Report, as well as providing additional details on other financial reporting matters considered during the year. As part of the Committee's review of the 2018 Annual Report at its meeting in February 2019, a report on management procedures was produced for review which clearly detailed responsibilities and the steps undertaken by management to ensure full compliance.

Significant issues and judgements

The Audit Committee has reviewed the following significant financial reporting issues and judgements made during the preparation of the financial statements with management and the auditor. The significant areas of focus considered and actions taken are set out below. These issues have been discussed and reviewed by the Audit Committee during the year, notably at the review of the interim results and at the review and agreement of the audit plan for 2020.

Significant matter	Action taken
Acquisition accounting	
The Group makes a large number of acquisitions each year, many of which require the valuation of acquired intangible assets including brands, customer lists and goodwill. The calculations for valuing these assets on acquisition are subject to significant judgement and estimation about the future performance of the acquired business, such as forecast customer termination rates, discount rates and growth rates. The Group utilises the allowances for provisional accounting within the standards where appropriate, and there is judgement required during this period as to whether the adjustments relate to the pre- or post-acquisition period.	At the year end, management provided the Audit Committee with a summary of M&A activity in the preceding year, including updates to provisional accounting as well as details of new acquisitions. The Audit Committee reviewed the accounting treatment of certain aspects of significant acquisitions, including determination of the consideration paid, the identification and valuation of acquired intangible assets and a review of provisional opening balance sheets. During the period, an adjustment was made to the carrying value of the customer list acquired in Cannon UK. Due to the CMA restrictions in place after this acquisition the Group was unable to fully review the acquisition accounting within the adjustment period. Due to its materiality an adjustment has been made in 2019 to correct the value of customer lists with the offset being an adjustment to the associated deferred tax liability and goodwill. This is disclosed in Note B2 Intangible assets.
Deferred tax assets recognised on unused tax losses	
The Group holds substantial deferred tax assets recognised on unused tax losses. The amount recognised is a judgement and is based on estimates of future profitability and judgements in determining the forecast period.	The Audit Committee reviewed the position at the half-year and year-end balance sheet dates supported by papers from the Group Tax Director, and is satisfied that the assumptions supporting the valuations are appropriate and that the assets are reasonably stated in the Financial Statements. Where judgements are material to the Group the external auditor uses its own specialists to assist in the review of the approaches taken and assumptions made by management to ensure these are appropriate and result in adequate provisions. Further detail is disclosed in Note A14 Deferred income tax.
Tax provisions	
The Group holds a number of provisions for tax contingencies in relation to various claims and potential claims from tax authorities, which require significant judgements and estimates in relation to tax risks. The complexity is increased as a result of the large number of tax jurisdictions in which the Group operates, and the time taken for tax matters to be agreed with the relevant authorities.	Management employed local tax experts to support judgements where there was significant uncertainty and the amounts involved were material. In respect of transfer pricing across tax jurisdictions, the Group benchmarked its approach using international tax experts to ensure the risk of breaching local tax authority requirements is minimised. As noted above, the Audit Committee reviewed the position at the half-year and year-end balance sheet dates supported by papers from the Group Tax Director, and is satisfied that the assumptions supporting the valuations are appropriate and that the liabilities are reasonably stated in the financial statements. Further details can be found in Note A13 Current tax liabilities.

Significant matter

Action taken

Goodwill impairment review

The Group carries material balances for goodwill and acquired intangible assets, and due to the acquisition programme makes material additions to these balances each year. Annual impairment tests are based on value-in-use calculations which require significant judgements in relation to the inputs used, including forecast growth rates and discount rates. Management is required to perform annual tests for impairment of goodwill balances over £1m, and on other acquired intangible assets when there are indicators of impairment.

Management reviewed all goodwill balances over £1m for impairment using a centrally provided model. The intangible assets were grouped into cash-generating units (CGUs) for the purpose of assessing recoverable amount, using cash flows based on the most recent strategic plans, as amended for any significant changes since their preparation. Cash flows were discounted using the internally published Group discount rates, which are adjusted to reflect local country risk. The Audit Committee received a summary of the results of the review, and although the total value of intangible assets is significant, was satisfied that the outcome of the impairment review was adequately disclosed in Note B2 Intangible assets.

Other financial reporting matters**Going concern and viability statements**

At its meeting in February 2019, the Audit Committee considered the Group's ability to continue as a going concern, taking into account budgets, borrowing facilities, timing of cash flows, and financial and operational risk management before recommending to the Board that it adopt the going concern basis of preparation for the 2018 Financial Statements. The going concern statement for 2019 can be found on page 181. At the same meeting, the Audit Committee also considered the longer-term viability of the Company, reviewing the analysis from management to support the viability statement in the 2018 Annual Report. This included forecasts of future cash flows, stress-testing scenarios and an analysis of other risks that could impact the viability of the business over the three-year period 2019 to 2021 and how they could be mitigated. The Committee also considered guidance published by the FRC on viability statements. The viability statement for 2019 can be found on page 60.

Fair, balanced and understandable reporting

During 2019, the Audit Committee undertook a review of the 2018 Annual Report ahead of its publication to consider whether it was fair, balanced and understandable as required by the UK Corporate Governance Code. Further details can be found in the Corporate Governance Report on page 80. The Audit Committee was satisfied that the Annual Report did provide a fair, balanced and understandable assessment of the Company's position and prospects. The Board's statement on fair, balanced and understandable in relation to the 2019 Annual Report can be found on page 182.

Accounting standards

Consideration was given by the Audit Committee to the changes in accounting policies in relation to the implementation of IFRS 16 Leases when reviewing the preparation of the 2019 Financial Statements, as well as the adoption of the requirements of IFRIC 23 Uncertainty over Income Tax Treatments. Full details of the accounting standards applied in the 2019 Annual Report can be found in General accounting policies on pages 126 to 128.

FRC thematic review of 2018 Annual Report and Accounts

As part of its ongoing review of financial reporting, the Conduct Committee of the Financial Reporting Council (FRC) wrote to the Chairman, Chief Financial Officer and Audit Committee Chair in November 2019 regarding a limited scope thematic review of IFRS 15 reporting disclosures. The Audit Committee considered the letter notifying the Company of its inclusion in the review and discussed the response at its meeting in December 2019. As a result of this engagement, a small number of changes have been made to the accounting policy disclosures for revenue recognition in the 2019 Annual Report to enable users to map the performance obligations with the goods and services offered by business line. Our approach was agreed by the FRC and they have confirmed the matter is now considered satisfactorily closed.

External audit**Audit services**

The auditor is appointed by shareholders to provide an opinion on the Financial Statements and certain other disclosures prepared by the Directors. KPMG LLP has acted as the auditor to the Group throughout the year. The Audit Committee is responsible for oversight of the auditor, agreeing the audit strategy and related work plan as well as approving their fees.

The auditor attends all meetings of the Audit Committee. During 2019 KPMG met with the Audit Committee once without executive management present and met with the Audit Committee Chair independently four times. The main engagement with the Audit Committee in 2019 has been over the audit and publication of annual and periodic financial statements, including the auditor's scope and priorities approach and key judgement areas. During 2019, the Audit Committee considered the findings of the FRC's Audit Quality Review 2018/19 inspection of KPMG and the other large external audit firms and received a report from KPMG on how they were responding to identified issues. The Audit Committee considers that it has an effective working relationship with the external audit team. As reported on page 86, the Audit Committee has formally reviewed the effectiveness of the auditor and is satisfied with their performance.

Audit-related and non-audit services

To safeguard the objectivity and independence of the auditor, the Company has a policy on the engagement of the auditor's services on audit-related and non-audit services. The Audit Committee accepts that certain work of a non-audit nature is best undertaken by the auditor.

The policy sets out the nature of services that are permitted and those that are specifically prohibited. In general, permitted services would be limited to matters that are closely related to the annual audit process or where a detailed knowledge of the Group is advantageous. The auditor is permitted to be engaged on transaction services but not to undertake any work which would itself be subject to audit.

The Audit Committee regularly reviews the amount and nature of non-audit work performed by the auditor to ensure that the auditor's independence is not compromised. Any engagement fee on permitted services in excess of £10,000 requires the approval of the Chair of the Audit Committee and any engagement fee in excess of £250,000 requires the approval of the Audit Committee. A copy of our policy on the provision of non-audit services by the external auditors is available on our website. There was no significant non-audit service rendered during 2019.

Audit fees for the statutory audit for 2019 were £2.6m (2018: £2.6m). Fees for audit-related assurance services and other non-audit services incurred during the year amounted to £0.2m (2018: £0.2m). The ratio of non-audit fees to statutory audit fees for the year was therefore 0.08:1 (2018: 0.08:1). The majority of the audit-related services were in relation to non-statutory accounts audits and assurance services. Further details of the fees paid for audit services, audit-related services and non-audit services can be found in Note A8 to the Financial Statements on page 136.

Audit Committee Report

continued

Disclosure of information to the auditor

The Audit Committee monitors the process leading up to the preparation of the Financial Statements, including the arrangements the Company has in place for disclosing all relevant audit information to the auditor. A formal confirmation on disclosure of information to the auditor is provided in the Directors' Report on page 181.

Effectiveness

Under the UK Corporate Governance Code, the Audit Committee is required to review and monitor the auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements. The 2018 audit was completed and all milestones reached, and there were no significant unexpected events relating to the publication of the 2018 year-end results in February 2019.

In 2019, the Audit Committee considered the findings of the review of the auditor's effectiveness during the 2018 audit process which had been conducted during the preparation of Group and local statutory accounts for the 2018 financial period. The process drew input from the Chief Financial Officer, the Director of Risk & Internal Audit and other members of the senior finance management team as well as from the majority of the Finance Directors of the Group's subsidiaries. The process made use of a formal evaluation using a questionnaire which was completed by 36 business units as well as by the central accounts, tax and treasury functions. In order to allow direct comparability of the evaluation scores across periods, the questions were exactly the same as those used in previous years. The questionnaire covered:

- ① resources and expertise of the external audit team;
- ② effectiveness of the audit process; and
- ③ effectiveness of the financial controls testing process.

The Audit Committee considered the comprehensive findings of the review. It was noted that, although the majority of individual feedback was satisfactory or positive, some concerns had been raised by a few countries on the knowledge and experience of more junior members of the audit teams and a lack of continuity in staff. None of the findings were considered material in the overall context of the Group audit but comments received were helpful in relation to improvements in the Company's processes and those of the auditor. Taking all responses into account, the scoring mechanism demonstrated that the audit performance was effective and at a similar level to the previous year.

Tenure

KPMG LLP has been our external auditor since the audit for the year ended 2009, with a formal audit tender undertaken during 2017. KPMG LLP are required to rotate the audit partner responsible for the Group audit every five years. Mike Maloney was appointed lead audit partner in 2018. He continues as lead audit partner and has attended all Audit Committee meetings during 2019.

The Company confirms its compliance with the provisions of the UK Competition & Markets Authority Order regarding statutory audit services for the financial period ended 31 December 2019.

Auditor independence and objectivity

The Audit Committee considers annually the scope, fee, performance and independence of the external auditor. In concluding that KPMG LLP should be proposed for reappointment as auditor at the AGM in May 2020, the Board and the Audit Committee took into account the need to ensure that auditor independence was safeguarded. The Audit Committee received confirmation from KPMG LLP that they remained independent and objective within the context of applicable professional standards. The Audit Committee also took into account the review undertaken of the effectiveness of the audit process, as well as input from executive management.

The Company considers that there are sufficient controls and processes in place to ensure that the required level of independence of the auditor is maintained. The Board does not consider that there is any material risk of the Company's auditor withdrawing from the market.

Risk management and internal control

The Group's approach to managing risk and ensuring that an effective internal control environment is maintained is set out in the Risks and Uncertainties section on page 55. The Board's statement on risk management and internal control is set out in the Corporate Governance Report on page 80. Independent reassurance of the effectiveness of risk management and internal controls across the Group is provided to the Chief Executive and the Board by Group Internal Audit.

The identification and management of risk is fully integrated into the development of the Group's strategy and the day-to-day operational execution of the strategy by the regions and business units. Ensuring that risks are identified and managed effectively is a part of every manager's and supervisor's job through leadership of the teams for which they are responsible.

The Board has overall responsibility for the Group's risk management approach. This includes:

- ① review and approval of the Group's overall strategy, including overall risk appetite – which includes reviewing the risks that may prevent the Group from achieving its objectives and ensuring that these risks are mitigated or managed to an acceptable level;
- ② regular reviews of business performance including updates of the risks that the business is facing, and challenging management to obtain assurance that these risks are being effectively managed;
- ③ review of management's approach to identifying and managing risk including approval of the Group Risks and Uncertainties schedule and recommending enhancements;
- ④ evaluation of the effectiveness of internal controls, including financial, operational and compliance controls;
- ⑤ evaluation of the effectiveness of internal and external audit; and
- ⑥ delegation of authority to the Chief Executive and Chief Financial Officer to make commitments on behalf of the Company.

Some of the above responsibilities are delegated to the Audit Committee as previously described. The Audit Committee receives regular reports from the Chief Financial Officer and the Director of Risk & Internal Audit on financial controls and process improvement programmes. These include:

- ① an annual report on the overall status of the control environment in the Group including the results of testing and reports on identified areas of weakness in controls;
- ② action plans on control environment improvements and updates on their implementation;
- ③ updates on control weaknesses and planned actions to prevent a re-occurrence; and
- ④ periodic reports from regional and Group Finance executives, and Internal Audit.

During 2019, the Audit Committee continued its practice of reviewing in depth the risk and control environment in the five main regional businesses, as well as the Regional Finance Directors' assessment of the quality and priorities of the Finance function in the relevant part of the business. The Audit Committee received briefings from the Regional Finance Directors and their teams for the North America and Pacific regions during the year. The Regional Finance Director for the UK & Rest of World region also presented an update as part of the regional review during 2019 (see page 75). This provides a high-level insight for the Audit Committee as well as an opportunity to challenge key managers on potential risks. It further supports the discussions that take place in the Nomination Committee on talent and succession in the Finance function.

The number of control issues across the Group remains relatively low, with those that do occur not resulting in a material impact on Group performance. Nonetheless, significant control issues were experienced in Brazil, where weaknesses in financial controls led to it failing its internal audit; in payroll tax compliance in Singapore and France; and in two data breaches and a fraud on a supplier in North America. Operational controls examined by Internal Audit generally work well but during 2019 some gaps in awareness and implementation of Group technical standards led to a number of

instances of failure to comply fully with Group policies and standards for the conduct of fumigation activity in several countries, in particular India, Australia, Malaysia and New Zealand.

These issues are being followed up by Group technical specialists and country management with precautionary suspensions of certain activities pending resolution.

The Audit Committee also receives a regular report of matters reported via Speak Up, our internal whistleblowing process. There were 65 control incidents reported in 2019 (2018: 23). The number of Speak Ups increased in 2019 compared with previous years, but the nature of the matters reported indicates that this increase is likely to be the result of better awareness of the Speak Up facility rather than a worsening of the internal control environment. The majority of Speak Ups relate to employee and employment matters; very few relate to fraudulent activity, which remains at a very low level across the Group. Further details of the type of control incidences, and the processes for reporting and investigating any incidents are provided in the Responsible Business Report which is available on our website.

There is a Group Risk Committee composed of key functional and operational senior managers which considers the risk framework and key and emerging risks. This committee sits within our governance framework as set out on pages 70 and 71.

Copies of the minutes of the Group Risk Committee are provided to the Audit Committee. Where appropriate, items that are raised as significant or emerging issues by the Group Risk Committee are reflected in adjustments to the control environment.

Internal audit

The Group has an operational Internal Audit team of six led by the Director of Risk & Internal Audit who has been in position for eight years. The Director of Risk & Internal Audit reports to the Chief Financial Officer and has direct lines of communication with the Chair of the Audit Committee, the Chief Executive and the Company Chairman, as well as to all operational and functional leaders in the business. Two new members joined the Internal Audit team during 2019, including an experienced auditor recruited in North America. It is intended in 2020 that this new recruit focuses about two-thirds of his time on branch audits in North America to provide enhanced scrutiny of processes across the largest business in the Group.

The Director of Risk & Internal Audit will retire in 2020. An experienced successor has been identified from within the business and will be appointed from July 2020 following a comprehensive handover.

In 2019, Internal Audit continued to conduct in-depth reviews of a broad range of business processes at business locations across all regions. These included:

- key financial controls;
- entertainment and travel expenses;
- authority schedules;
- payroll;
- IT general controls and IT corporate-level controls including Payment Card Industry Data Security Standard (PCI-DSS) compliance;
- pricing;
- customer contract management;
- stock and warehousing;
- procurement;
- operational effectiveness including compliance with Group technical standards;
- business continuity management; and
- compliance with the Code of Conduct and anti-corruption policy.

The 2019 internal audit plan was approved by the Audit Committee in December 2018. Over 90% of the plan was executed but there was some reprioritisation to incorporate reviews of businesses where risks had increased. As a result, an additional audit was completed during the year in Brazil. The 2020 internal audit plan was considered and approved by the Audit Committee at its meeting in December 2019.

The common themes arising from the internal audit work during 2019 were presented to the Audit Committee in December 2019 together with recommendations to senior management to improve the controls across some processes.

None of the failures identified in the control environment by Internal Audit or any of the recommendations relating to individual audits represented a systemic underlying issue. The overall work of the Internal Audit function is supportive of the Audit Committee's and the Board's view that the financial and operational controls environment, set out on page 86, is working adequately. The Board's statement on the effectiveness of risk management and internal control can be found on page 80.

Governance and compliance

The Audit Committee has responsibility for reviewing the Company's procedures for handling compliance with our Code of Conduct and anti-corruption policy, and confidential reporting (whistleblower) arrangements, known as Speak Up. The Code of Conduct, a fundamental commitment to comply with all applicable legal requirements and with high ethical standards, can be found on our website. The Company uses an international confidential Speak Up email address, which is monitored by Internal Audit.

The Audit Committee is informed of feedback from senior management who are required to provide an annual Letter of Assurance confirming compliance with key Group policies, including the Code of Conduct, and the dissemination of these policies to their respective country and functional teams (see also Management and compliance on page 53). There are policies and procedures in place for the reporting by colleagues of suspected wrongdoing, for these suspicions to be formally investigated, and for the results of the investigation to be reported to the whistleblower.

The Audit Committee also periodically reviews the communication process in place throughout the Company regarding whistleblowing and the use of Speak Up to ensure its effectiveness and to monitor our colleagues' understanding of the system.

Audit Committee effectiveness

In November 2019, the Audit Committee conducted a review of its effectiveness using internal questionnaires, in parallel to the Board evaluation detailed on page 79. The review concluded that the Audit Committee continued to perform effectively and had received sufficient, reliable and timely information from management to enable it to fulfil its responsibilities. In 2020, the Audit Committee areas of focus would include ensuring a smooth transition for the Director of Risk & Internal Audit in July, monitoring the performance of the external auditors and seeking to enhance the depth of financial expertise on the Audit Committee when adding new committee members in future.

Read our Code of Conduct at
rentokil-initial.com/responsible-delivery/code-of-conduct

Read the Audit Committee's terms of reference at
rentokil-initial.com/investors/governance

Nomination Committee Report

Dear Shareholder

There have been some significant changes to the Board during 2019, with the Nomination Committee playing an appropriately central role in the process. I joined the Board in March 2019 as a Non-Executive Director and became Chairman and Chair of the Nomination Committee following John McAdam's retirement at our AGM in May 2019. Richard Burrows, who had kindly extended his time as Senior Independent Director in order to oversee the Chairman succession process, stepped down at the same time. Sir Crispin Davis also resigned as a Non-Executive Director in June 2019.

Committee members

- Richard Solomons (Chair)
- Angela Seymour-Jackson
- Julie Southern
- John Pettigrew
- Linda Yueh

Highlights of 2019

- Smooth Board succession and induction processes
- 9th in 2019 Hampton-Alexander Review for women on boards and in leadership
- Improvements in the gender balance and readiness of our executive succession and talent pipeline
- Chief Financial Officer succession planning

Areas of focus for 2020

- Senior management succession planning and talent development
- Monitoring and fostering a successful performance culture
- Diversity and inclusion, within our ESG strategy
- Smooth transition of Chief Financial Officer role

In May 2019, John Pettigrew, a Non-Executive Director of the Company since January 2018, succeeded Richard Burrows as our Senior Independent Director. Angela Seymour-Jackson succeeded Richard as the Chair of the Remuneration Committee. Angela has been a Non-Executive Director since March 2012 and has been a member of the Remuneration Committee since she joined the Board. Following the departure of Sir Crispin Davis, Julie Southern joined the Remuneration Committee.

In the second half of the year, the Nomination Committee has been overseeing the recruitment of a new Non-Executive Director as set out on page 89. The Nomination Committee's key objective is to make sure that the members of the Board have the appropriate balance of skills, knowledge and experience to govern the Company in a professional, ethical and transparent manner, and to ensure that the Board is rigorous and effective in discharging its responsibilities.

As part of the recruitment process the Nomination Committee considered the composition of the Board and the desired skills and experiences of the new Non-Executive Director. The process has taken slightly longer than envisaged to complete but I am delighted to say that Cathy Turner will be joining the Board as a Non-Executive Director, as well as a member of the Remuneration and Nomination Committees, from 1 April 2020. Cathy has a wealth of executive and Board experience at leading organisations, particularly in the area of remuneration and will, I am sure, be a great addition to the Board.

The Nomination Committee has also dedicated time during the year to consider succession plans for the Executive Leadership Team and other critical roles. In particular, we have spent time considering in detail the succession plans for our Chief Financial Officer, Jeremy Townsend, who indicated his intention to retire at some point during 2020. It is intended that Jeremy will step down as an Executive Director in the second half of 2020 and Stuart Ingall-Tombs, our Chief Financial Officer for North America, has been identified as his successor. Details of the steps that the Committee has taken to plan for this change to the executive management team are set out on page 90.

The Board considered its own diversity as well as that of senior management and the wider workforce during 2019. We reviewed the Board Diversity Policy during the year and I am pleased to say that currently 43% of our Board are female (this will become 50% following Cathy Turner's appointment in April) and we have one Director from an ethnic minority background.

In 2020, we will continue to focus on diversity and the impact of the policies and processes that have been put in place.



Richard Solomons
Chair of the Nomination Committee

26 February 2020

Role of the Nomination Committee

The Nomination Committee has delegated authority from the Board as set out in its terms of reference. The annual review of the terms of reference of the Nomination Committee took place in December 2019 and the terms of reference are available on our website.

Membership and attendance

All Non-Executive Directors are members of the Nomination Committee in order to ensure that they are able to provide input and help determine the future composition of the Board. Richard Solomons became the Chair of the Nomination Committee following John McAdam's retirement in May 2019. The Nomination Committee met formally six times during the year, three of which were scheduled meetings and three were additional to accommodate Director succession planning. The members of the Nomination Committee also met regularly outside of these formal meetings in relation to the succession of the Company's Chairman in the earlier part of 2019 and then as part of the recruitment process for a new Non-Executive Director which was undertaken during 2019. Full details of the meeting attendance of members of the Nomination Committee during 2019 can be found on page 72.

Where any member is unable to attend a meeting, the Nomination Committee Chair will seek their views in advance and provide a briefing on outcomes if appropriate. All Nomination Committee members are provided with the papers and the minutes of the meeting, whether or not they are able to attend. The Chief Executive also normally attends meetings, especially to assist with discussions of executive succession and talent programmes. The Company Secretary is secretary of the Nomination Committee and the Deputy Company Secretary also attends all meetings.

Appointment process to the Board

The Nomination Committee has responsibility for managing the appointment process to ensure a formal, rigorous and transparent procedure for appointing Directors. In order for the Board to discharge its duties and responsibilities effectively, it must comprise a diverse group of individuals whose skills and experience are gained in a variety of backgrounds. Successful candidates must demonstrate

independence of mind and integrity, and must enhance the overall effectiveness of the Board. Appointments are considered objectively, regardless of gender, ethnicity or other personal characteristics, and are made on merit. Pro-forma letters of appointment and Directors' service contracts are available on our website. The process of appointing new Directors to the Board is supported through the use of external recruitment consultants.

Chairman and Non-Executive Director succession

Following a rigorous recruitment process undertaken in 2018 and early 2019, Richard Solomons was appointed as a Non-Executive Director from 1 March 2019 and became Chairman following John McAdam's retirement at the conclusion of the Company's AGM on 8 May 2019. Full details of the recruitment process were disclosed in the Company's 2018 Annual Report which is available on our website.

The Nomination Committee considered the composition of the Board during 2019 and a key area of focus was the recruitment of a new Non-Executive Director to join the Company's Board of Directors. The Nomination Committee engaged Heidrick & Struggles to assist with the process. Heidrick & Struggles has no other material connections with the Company or any Director and is a signatory to the Enhanced Voluntary Code of Conduct for Executive Search Firms.

Heidrick & Struggles worked with the Nomination Committee to devise a candidate profile, which contained a brief of the requirements and the desired skillset for the role. A comprehensive search was undertaken, yielding a pool of candidates which was reduced to a shortlist of several potential candidates. Regard was given to the Company's approach to culture and diversity (as set out overleaf) at all times in the process.

The preferred candidates met with the Chairman and the other Executive and Non-Executive Directors as well as the Group HR Director as part of the recruitment process. Following full deliberation, the Nomination Committee recommended the appointment of Cathy Turner to the Board. The Board approved the appointment and Cathy Turner will join the Board as a Non-Executive Director and a member of the Nomination and Remuneration Committees from 1 April 2020.

Activities of the Nomination Committee in 2019

In 2019, the Nomination Committee considered the following key areas:

Matters considered	Discussion and outcome	Find out more
Board succession	The Nomination Committee concluded the search for a new Chairman in 2019 and undertook the recruitment of a new Non-Executive Director, as well as the selection of a new Senior Independent Director and Remuneration Committee Chair.	See Board composition on page 69
Senior management succession	The Nomination Committee considered senior management succession throughout the year, and received a briefing from the Group HR Director and Group Talent Director in December 2019 on talent and succession planning.	See page 90 for more information
Terms of reference	The Nomination Committee reviewed its terms of reference in December 2019.	Available to view on our website
Nomination Committee effectiveness	The Nomination Committee undertook an internal review of its effectiveness.	See effectiveness review on page 91
Director effectiveness	A review of individual Directors' performance was conducted, as part of the Board evaluation process, and the Nomination Committee made appropriate recommendations to the Board over the re-election of Directors at the AGM.	See page 91 and the Board evaluation on page 79
Diversity	The Nomination Committee considered the Board Diversity Policy, including its effectiveness.	See page 91 for more information
Conflicts of interest	The Nomination Committee reviewed potential conflicts of interest authorised by the Board and the processes in place to ensure that they are properly considered.	See Managing conflicts of interest on page 91

Nomination Committee Report continued

Senior management succession planning and talent development

Both the Nomination Committee and the Board recognise that strategic, thoughtful and practical succession planning is critical to the long-term success of the Company. The Nomination Committee looks to bring new energy, challenge and oversight to the Board and to reflect the business strategy and operational goals in appointments. The Board is ultimately responsible for succession planning for Executive and Non-Executive Directors and senior management, with the Nomination Committee having oversight and making recommendations as required. During 2019 the Nomination Committee received a presentation on the succession plans for roles within the Executive Leadership Team (ELT) and Senior Leadership Forum (SLF; our top 26 senior management team).

In addition, the Group HR Director and the Group Talent Director presented an update on the Company's talent strategy to the Nomination Committee in December 2019. This reviewed the current succession pipeline for key senior management roles, most notably the members of the ELT and other critical roles, as well as wider talent development priorities. Details of the members of the ELT can be found on page 66. The Nomination Committee considered the progress made against the priorities for 2019, including how we benchmark and develop talent. An overview was provided of the global and regional talent pools, which have been established to help identify successors for roles in our ELT and SLF, to improve the succession pipeline for senior operational management, and to identify and accelerate the development of fast-track talent. Progress was encouragingly strong in 2019 with 93% of participants in our global talent pools having been promoted to more senior roles since 2017. Gender diversity showed progress too with 36% of regional successors now female, a sign of the depth of diverse talent across the organisation. The Nomination Committee considered diversity in the talent pools and were updated on the launch of the new Rentokil Initial Female Leadership Mentoring Programme to help drive greater gender diversity in our succession plans.

Chief Financial Officer succession

Making further progress on executive succession had already been identified as an area of focus in 2019 for the Nomination Committee but during the year Jeremy Townsend, our Chief Financial Officer, indicated his intention to retire at some stage during 2020. As a result a more significant proportion of the Committee's time in 2019 was dedicated to this succession process.

The Nomination Committee initially engaged Russell Reynolds Associates to undertake a benchmarking exercise in order to evaluate potential external candidates. The firm was then subsequently used to assist with the interview and referencing process including both internal and external candidates. Russell Reynolds has no other material connections with the Company or any Director and is a signatory to the Enhanced Voluntary Code of Conduct for Executive Search Firms.

Towards the end of the year, the Nomination Committee considered a shortlist of both internal and external candidates. The Chairman, Chief Executive, Chair of the Audit Committee and Group HR Director met with the potential candidates as appropriate. By the end of the year, the Committee had a strong succession plan in place with a preferred candidate identified.

Jeremy Townsend has now formally notified the Board of his intention to retire in the second half of 2020. On the recommendation of the Nomination Committee, the Board has selected Stuart Ingall-Tombs, our Chief Financial Officer for North America, to succeed him as Chief Financial Officer for the Group. Stuart has worked for the Company since May 2007, covering a number of senior roles in the Group including Regional Finance Director, Europe from 2014 to 2018 and Group Financial Controller from 2011 to 2014, before taking up his current role approximately 18 months ago. There will be an extended handover period with the exact appointment date to be announced once finalised.

Board diversity objectives

Objectives	Progress
A target of at least 33% female Directors by 2020, and to maintain this thereafter.	43% of our Directors are currently female, which will rise to 50% in April 2020.
Commitment to a merit-based approach to Board composition within a diverse and inclusive culture.	A rigorous process was undertaken for the recruitment of Cathy Turner. See full details on page 89.
To work only with executive search firms who have signed up to the Enhanced Voluntary Code of Conduct for Executive Search Firms on gender diversity and best practice (Enhanced Code).	All executive search firms retained by the Company during 2019 for Board and ELT appointments have signed up to the Enhanced Code (details of the agencies can be found on pages 89 and 90).
To support the executive management of the Company in developing and implementing appropriate policies, programmes and initiatives designed to promote diversity at all levels of the organisation.	In 2019, our ELT and its direct reports (excluding colleagues in administrative roles) were 26% female. Regional successors are 36% female. Approximately 25% of our colleagues are female. The Board receives two detailed briefings on culture and our Employer of Choice agenda each year, which address diversity.
To ensure that there is a pipeline of female executives within the organisation who are qualified and capable of taking up senior leadership positions.	Women now comprise 26% of successors for ELT and SLF roles, up from 24% in 2018 and 22% in 2017. Our progress on improving female representation in the most senior leadership roles in the Company saw us ranked in the top 10 of all FTSE 100 companies in the most recent Hampton-Alexander review, where we were placed 9th in 2019, up from 32nd in 2018.
Aim to ensure that there is appropriate and meaningful disclosure in the Company's Annual Report of Board composition, appointment processes, and the policies and initiatives the Company has in place and the steps it is taking to promote diversity, both at Board level and across the Company.	The Nomination Committee reviews this each year.

Fostering a diverse and inclusive culture

A key strategic aim of the Company is to be recognised as a world-class Employer of Choice that is able to attract, recruit and retain the best people from the widest possible pool of talent. We are, therefore, committed to creating a diverse and inclusive working environment for all employees by, at all times, striving to be an organisation that values everyone's talents and abilities and where diversity is encouraged. Details on how we are achieving this can be found in the Responsible Business section on page 46 and our Group Diversity & Inclusion Policy is available on our website.

The Board of Directors has adopted a Board diversity policy which is reviewed and reported against annually. As part of its monitoring of gender, the Board reviews our Gender Pay Report each year (see page 73) and the reports are available to view on our website.

Our Board diversity policy reaffirms our commitment to meeting and maintaining the recommendations made in the Hampton-Alexander Review on improving gender balance in FTSE leadership, which set a target of 33% female Board representation by 2020. We achieved this target in 2017 and have been able to maintain it since then. The objectives contained in our Board diversity policy and how we are meeting these are set out on page 90.

In 2017, we achieved the aim set in the Parker Review for each FTSE 100 Board to have at least one Director from an ethnic minority background by 2021, and have maintained it since then.

As a global organisation, we also believe that it is important to have a senior management team that is representative of the markets in which we operate and the customers we serve. To that end, we are pleased to report that 11% (2018: 11%) of our senior management roles are currently filled with individuals who are defined as ethnic minorities. We can also report that 24% of the participants in our current global talent pools are defined as being of an ethnicity that is not White or European, building us a growing pipeline of future leaders from ethnically diverse backgrounds. We aim to remove bias from our recruitment processes and to ensure that we are attracting the best people from the widest possible pool of talent.

The 2019 Your Voice Counts employee survey showed good progress on fostering a diverse and inclusive culture, where 96% of colleagues reported that they do not feel that we preclude men and women from having equal opportunities to succeed in this Company. This was a 1 percentage point increase since the last survey was undertaken in 2017 and is 11 percentage points higher than the Global Norm. We have also had no material gender pay gap for the last three years in our UK businesses. Colleagues aged 40 or under now represent over half (55%) of our global workforce and in 2019 for the first time millennials (colleagues born between 1981 and 1996) became our largest age group. A summary of our culture can be found on page 20, with further details on our colleagues provided in the Responsible Business section on page 46.

Managing conflicts of interest

The Directors have a statutory duty to avoid a situation where they have, or could have, a direct or indirect interest that conflicts or might possibly conflict with the interests of the Company. The Board is

permitted, under powers from shareholders contained in the Articles of Association, to authorise actual or potential conflicts of interest.

The Company has a procedure in place to deal with the situation where a Director has a conflict of interest and as part of the process the Board considers each potential conflict situation on its merits. Since the procedure was introduced, a number of potential situational conflicts have been authorised after review by the Chairman, with support from the Company Secretary. The Board maintains a register of authorisations granted and the scope of any approvals given, which is circulated to Board members prior to each meeting.

Conflicts are divided into 'transactional' conflicts arising from a specific matter and 'situational' conflicts arising from appointments on other boards or through some other ongoing relationship. All of the approvals given have been situational, none of which is subject to any specific limitation or condition. These potential conflicts are not material either to the Company or, the Directors believe, to the other companies that are the subject of the potential conflict. The Company has not encountered any 'transactional' conflicts involving Directors that would require a Director to be excluded from any part of the Board's activities.

The impact of each Non-Executive Director's other commitments on their ability to perform their role on the Board has also been carefully considered. While not strictly a conflict of interest, the implications for effective conduct of Board responsibilities of so-called 'overboarding' are clear, and an increasing concern for some investors. Our experience shows that all the Company's Non-Executive Directors have been able not only to perform their roles on the Board, but also to go beyond their formal commitments, including for example attendance in many cases at meetings of other Committees in addition to those of which they are members. Further details can be found in the Corporate Governance Report on page 69.

Under its terms of reference, the Nomination Committee has responsibility to review the current schedule of authorisations with a view to considering whether they remain appropriate or whether they should be revoked or otherwise limited. This review is undertaken annually and also considers the process for considering and authorising potential conflicts of interests. In 2019, the process for the disclosure of any perceived conflicts upon the appointment of a new Director was reviewed and it was concluded that no updates were necessary. All authorisations given were considered appropriate and none were revoked or otherwise limited.

Nomination Committee effectiveness

The Nomination Committee has conducted an independence evaluation of each Non-Executive Director seeking election or re-election and recommended to the Board that they be put forward for election or re-election on the basis that their performance, both individually and in aggregate, continues to be effective and that each demonstrates commitment to the role. In addition, the Nomination Committee conducted a review of how it operates using internal questionnaires, in parallel to the Board evaluation detailed on page 79. The review concluded that the Nomination Committee had operated effectively in 2019.

Board

Senior management¹

Total workforce

1. We define senior management as the members of our Executive Leadership Team and all of their direct reports, excluding colleagues in administrative roles.

Directors' Remuneration Report

Dear Shareholder

On behalf of the Board I am pleased to present the Directors' Remuneration Report for the financial year ended 31 December 2019.

Introduction

This is my first report to shareholders following my appointment as Remuneration Committee Chair at our Annual General Meeting in May 2019. I would like to thank the previous incumbent Richard Burrows and the other Committee members for their support in the transition. I am a longstanding Non-Executive Director and member of the Remuneration Committee at Rentokil Initial and during this time I have been encouraged by the tremendous progress the business has made and the value that has been created for all our shareholders.

The Remuneration Committee has worked hard throughout this period to ensure that our Remuneration Policy balances incentivising and motivating our high-performing Directors through a reward programme that is strongly aligned to our business strategy with recognising and aligning with the interests of our shareholders, colleagues and the wider community.

Committee members

- Angela Seymour-Jackson (Chair)
- Linda Yueh
- Julie Southern

Highlights of 2019

- Succession for the Remuneration Committee Chair who stepped down at the May 2019 AGM
- Reviewing the corporate governance and best practice updates and their implications
- Reviewing the Executive Director's salaries and engaging with shareholders regarding the proposals

Areas of focus for 2020

- Review of Directors' Remuneration Policy
- Incorporating best practice guidelines and corporate governance updates into our remuneration packages and policy

Key decisions in 2019

Context of business performance

2019 has been another successful year for the business resulting in a strong financial performance with significant progress being made on delivery of revenue (up 8.6% on 2018), profit (up 10.5% on 2018) and cash flow (up £58.7m on 2018) and a continued increase in shareholder value, with total shareholder return (TSR) growth of 36% over the last 12 months.

People remain at the forefront of our strategy and I am delighted that we have continued to make excellent progress on our Employer of Choice initiatives, which underpin our robust financial results. In addition our employee survey, Your Voice Counts, shows continued progress, with the Company again reaching world-class engagement and enablement levels which are so vital in delivering the service our customers have come to expect.

Annual bonus outcome

The annual bonus for our Executive Directors is based on both Company and personal performance, and continues to have challenging targets, with no bonus payable unless minimum performance gateways are surpassed. This scheme operates in the same way for all managers across our business of around 43,000 colleagues; the only difference being that the targets are tailored to the area of the business that they work in, rather than being based on Group achievement, to ensure colleagues are able to easily understand the targets and influence their outcome.

For 2019, the two performance gateways were based on profit and cash generation, both of which were achieved. The level of bonus payable was then determined by two key Company performance metrics: Ongoing Operating Profit and Ongoing Revenue performance. The Committee reviewed the performance against these targets, giving careful consideration to whether it was reflective of the overall Company performance, and concluded that the Company outcome was 74.5% of the maximum opportunity, which equates to 111.75% of salary. The individual performance of the Executives was then taken into consideration. The Chief Executive Officer (CEO), Andy Ransom, was awarded a performance rating of 5, recognising his outstanding performance, taking his overall bonus to 139.7% of salary. The Chief Financial Officer (CFO), Jeremy Townsend, was awarded a performance rating of 4, taking his overall bonus to 122.9% of salary. See pages 101 and 102 for a breakdown of the targets and calculation as well as details of the personal performance review.

Performance Share Award (PSP)

During 2019, the PSP award granted in 2016 came to the end of its three-year performance period. The vesting level of the award was dependent on two performance conditions EPS (measured over three financial years to 31 December 2018) accounting for one-third and relative TSR (measured over a three-year period ended 10 March 2019), which accounted for the remaining two-thirds. As with the bonus outcome, the Committee reviewed the vesting level based on the achievement against targets of 91.3% to ensure that the outcome was a true reflection of the wider business performance.

This scheme operates identically for our management team across the Group and we were particularly pleased that the high vesting level was enjoyed by a number of our longer-serving operational and functional managers that had been included in the grant for the first time in 2016.

The 2017 PSP is due to vest on 31 March 2020 and performance will be measured one-third on EPS (measured over three financial years to 31 December 2019) and two-thirds relative TSR (measured over a three-year period ending 30 March 2020). Vesting is currently estimated at 90.8%, using the actual EPS outcome and an estimated TSR result based on the performance up to the end of December 2019.

Use of discretion

The Committee has exercised its discretion on executive remuneration outcomes, in order to ensure the outturn is aligned with performance, on a consistent basis over the last few years. The table below outlines the discretion applied by the Committee in 2019 and the three years prior to this. The use of discretion has focused on increasing EPS targets to take into account acquisitions and disposals. These adjustments increased the targets, making the EPS target more challenging to achieve.

Year	Applied to	Discretion applied
2016	PSP awarded in 2014	EPS targets were increased from 14% at threshold and 20% at maximum to 17% at threshold and 23.1% at maximum, due to material M&A activity.
2017	PSP awarded in 2015	EPS targets were increased from 7% at threshold and 13% at maximum to 11.9% at threshold and 18.2% at maximum, mainly due to Steritech acquisition.
2018	PSP awarded in 2016	EPS targets were increased from 9% at threshold and 15% at maximum to 9.6% at threshold and 16.1% at maximum, due to material M&A activity.
2019	PSP awarded in 2017	EPS targets were increased from 6% at threshold and 11% at maximum to 6.9% at threshold and 14.1% at maximum, due to material M&A activity.

Strategic alignment of pay

Ensuring that our remuneration supports the delivery of the strategy is important to the Committee and this is achieved through aligning the measures used in our incentive schemes with our key strategic priorities. The Committee also ensures that the right behaviours and actions are driven from the top of the organisation down by ensuring that focus is balanced across both financial and non-financial outcomes, for example the inclusion of employee, customer, and health, safety and environment metrics in both the personal element of the annual bonus and the PSP. The Committee also takes into consideration the wider business performance when reviewing formulaic outcomes of metrics across all incentives.

Corporate governance updates

The 2018 UK Corporate Governance Code came into effect for our Company from 1 January 2019 and the Committee has reviewed the changes, particularly with regard to pension policy and post-employment shareholding requirements, as well as best practice developments during 2019.

Pension

The Committee has carefully considered the guidance for Executive Directors' pensions to be brought in line with the wider workforce and in light of this the CEO's pension has been frozen from 1 January 2020, reducing it from 25% to 21.9% of salary. As part of our Policy review in 2021, we intend to put a plan in place to align our incumbent Executive Directors' pensions with that of the wider UK workforce by the end of 2022, in line with best practice. Should any recruitment be undertaken at this level prior to the new Policy being implemented, the pension offered will be reduced from the policy level of 15% to the wider UK workforce level of 3%.

Post-employment shareholding requirements

The Committee will formally review the requirement to extend our shareholding guidelines to include post-employment as part of our Policy review in 2021. However, the Committee is pleased that the use of deferral into shares as part of our annual bonus and the two-year holding period on our Performance Share Plan already achieves a significant post-employment shareholding for our current Executive Directors.

Wider workforce engagement

Following changes to the UK Corporate Governance Code that seek to broaden the role of the Committee to include oversight of wider employee remuneration and related policies and to show how the Committee has engaged with the wider workforce, we have built on practices that were already in place and embedded in the way we work. As detailed on pages 18 to 21, our colleagues have been at the forefront of the significant progress we have made over the last few years and our Employer of Choice agenda (including safety, health and environment) remains our number one priority. More information about the Board's engagement with stakeholders, including our approach to workforce engagement, can be found on pages 76 and 77.

The Committee takes into account the wider workforce when making remuneration decisions for the Executive Directors and the Executive Leadership Team and has done so historically. The Committee is proud that both the PSP and annual bonus scheme operate consistently for both Directors and the wider management teams, across all countries within the Group, and penetrates deep into the organisation creating alignment and focus as well as ensuring that the success of the Company is shared by our colleagues.

Looking ahead

Salary review

As you are aware Rentokil Initial has steadily been moving up the FTSE 100 index, having rejoined it in 2017, and now sits around the FTSE 50 mark. The Remuneration Committee has historically shown restraint around our pay levels and adjusted our Executive Director pay downwards when our business was not performing and leading up to our falling out of the FTSE 100 back in 2009. This is shown by our historical CEO salaries: Sir Clive Thompson (1983–2003) – £1,100,000, Doug Flynn (2005–2008) – £900,000 and Alan Brown (2008–2013) – £775,000. Andy Ransom's salary on appointment in 2013 was £700,000. In addition, we have also either frozen pay or increased our Executive Directors' salaries in line with the wider workforce for over 10 years, without recognising the growth in the Company (and, therefore, the relevant benchmarks) over that time. Andy's current salary is £765,276 after six years in role and is below each of the previous incumbents and the salaries of CEOs in companies of a similar size. Our CFO is in a similar position with Jeremy Townsend's current salary being £491,964.

Following shareholder engagement and feedback between November 2019 and February 2020, from which emerged a strong show of support for the proposed salary changes, the Committee decided to increase Andy Ransom's salary by 14.3% to £875,000 and Jeremy Townsend's salary by 11.8% to £550,000 with effect from 1 January 2020, in line with wider Company practice. A phased approach to these increases was considered, but was not taken forward as we wanted to be clear and transparent about the total increase and could see no reasonable rationale for phasing this change over a longer period given the significant gap to current market salary levels. We appreciate that the increases are substantial, but the intention is for this to be a one-off adjustment before returning to our normal approach of restraint.

Directors' Remuneration Report

continued

The rationale for the increases are as follows:

- ❶ The Company has grown in size considerably since our CEO and CFO were appointed, moving from around FTSE 150 to FTSE 50 and growing market capitalisation from £2.0bn to around £9.0bn.
- ❷ Our current incumbents' salaries are low compared to other CEOs and CFOs in similar companies, and this does not fit with the principles we apply to our wider workforce of ensuring that our pay is fair and competitive.
- ❸ Our CEO and CFO are high performing with an excellent track record in delivering both Company performance and growth as evidenced through delivering a TSR of 302.7%, growth in profit before tax of 185.4% and revenue growth of 15.1% since 2013. This makes them highly attractive beyond the FTSE and the UK.
- ❹ However, while we recognise that the performance of our CEO and CFO is demonstrably higher than that of a 'median' executive, we have decided to align their pay around the median level demonstrating continued pay restraint.

While we recognise that the external environment is not conducive to material pay increases, the Committee has thought long and hard about this change, ultimately deciding that this mid-market level adjustment was both a fair reflection of the contribution the individuals bring to the business and fully aligned with shareholders' interests.

Policy review

2020 will be the final year under the current Directors' Remuneration Policy, as at the 2021 AGM we will be seeking your support and approval for a new Policy. We will look to engage with leading shareholders and their representative bodies as part of this review.

Director changes

Jeremy Townsend, Chief Financial Officer, recently announced his intention to retire in the second half of 2020. To ensure a smooth transition, after a rigorous internal and external review, it was decided that Stuart Ingall-Tombs would succeed Jeremy as Chief Financial Officer. Stuart is currently our Chief Financial Officer for North America and prior to that was Chief Financial Officer Europe and Group Financial Controller.

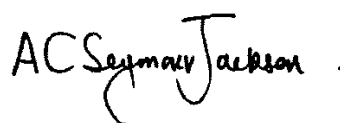
As part of the succession process, the Committee has considered the remuneration package for Stuart and following his appointment, which is expected to take place in the second half of 2020, his starting base salary will be £500,000. This is below the median pay for the role, and we intend to move him to a median salary of £550,000 once he has been in role for 12 months, assuming both his and the Company's performance is satisfactory. He would then be considered for normal salary reviews from January 2023. His pension contribution will be 3% in line with the wider UK workforce. All other package elements will be in line with our Policy and further details of the terms are set out on page 108.

Jeremy's leaving terms will be in line with our Policy. It is expected that he will be treated as a good leaver and further details of the terms are set out on page 108.

In light of this decision, careful consideration was given to whether the salary increase applied to Jeremy should be reversed. However, given the purpose of the review was to ensure that we are rewarding our executives fairly and that the transition is expected to last for a significant part of the year, it was felt appropriate that he continue to receive the increase.

Finally, I would like to take this opportunity to thank shareholders who provided feedback on our salary proposals and for their overwhelming support and positive comments in respect of both the Executive Directors and the Company overall.

I hope you will find the information in this report clearly explains the remuneration approach taken by the Company and enables you to understand how it links to our strategic business priorities and the delivery of our business plan. As always, I welcome any comments you may have and look forward to seeing shareholders at our AGM in May.



Angela Seymour-Jackson
Chair of the Remuneration Committee

26 February 2020

This report is structured as follows:

95 Remuneration at a glance

Key headline details on performance and remuneration in 2019

96 Directors' Annual Remuneration Report – Introduction

Details of the Remuneration Committee and its activities during 2019

98 Directors' Annual Remuneration Report – 2019

Details of Directors' remuneration received during 2019

106 Directors' Annual Remuneration Report – Looking forward 2020

Details of how the Directors' Remuneration Policy will be implemented in 2020

109 Summary of Directors' Remuneration Policy

Summary of the Directors' Remuneration Policy approved at the Company's AGM on 9 May 2018

Remuneration at a glance

Components

Fixed pay – Base salary, benefits, pension

Bonus

Performance Share Plan (PSP)

Unearned

Breakdown of Executive Directors' total remuneration

The table shows a comparison of the Chief Executive and Chief Financial Officer's total remuneration for 2019 and 2018 and shows the potential maximum that was unearned.

£'000								
Fixed pay				Variable pay		Total	Potential maximum	Unearned
Base salary	Benefits	Pension	Bonus	PSP				
Andy Ransom, Chief Executive								
2019	765.3	19.8	191.3	1,069.0	2,512.3	4,557.7	5,120.8	
2018	750.3	78.6	187.6	628.3	3,317.3	4,962.1	6,002.4	
+/-%	+2.0	-74.8	+2.0	+70.1	-24.3	-8.1	-14.7	
Jeremy Townsend, Chief Financial Officer								
2019	492.0	16.6	64.8	604.8	1,615.1	2,793.3	3,172.7	
2018	482.3	16.6	63.6	367.2	2,132.6	3,062.3	3,767.7	
+/-%	+2.0	-	+1.9	+64.7	-24.3	-8.8	-15.8	

Bonus

For any bonus to be payable, two gateway measures have to be met: profit, a minimum of £349.2m, and free cash flow, a minimum of £170.0m. Both were achieved.

Bonus targets and outcomes

Performance Share Plan (PSP)

The bar chart compares the value of the PSP received for 2019 and 2018.

PSP value (£'000)

The pie chart shows the weightings and estimated outcome of the performance conditions of the 2017 PSP award due to vest on 31 March 2020.

Directors' Annual Remuneration Report – Introduction

Introduction

The Annual Remuneration Report has been split into three sections for ease of reference. This introductory section provides an overview of the Remuneration Committee and their activities during the year. The second section, from page 98, provides an explanation of how the current Directors' Remuneration Policy was implemented in the year ended 31 December 2019 and shows the alignment between the Company's strategy, remuneration framework and performance, as well as the payments made to Directors during this period. The final section, from page 106, provides an overview of how the current Directors' Remuneration Policy will be applied in 2020.

Remuneration Committee responsibilities

The Remuneration Committee's main responsibilities are developing and setting the Directors' Remuneration Policy and overseeing its application. It determines and agrees the executive remuneration policy with the Board and approves individual remuneration arrangements for the Chairman, Executive Directors and members of the Executive Leadership Team. It reviews executive performance and strives to ensure that remuneration structures align the interests of management with those of shareholders and operate in the best long-term interests of the Company.

The Remuneration Committee oversees contractual terms on termination affecting Executive Directors and members of the Executive Leadership Team, and seeks to ensure that any payments made are both fair to the individual and to the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised. The Remuneration Committee also oversees the Company's incentive schemes including the operation and effectiveness of performance measures and targets in both the annual bonus plan and the PSP. It also lends oversight to major changes in employee remuneration across the Group.

Membership and attendance

Following Richard Burrows' retirement at the AGM in May 2019, Angela Seymour-Jackson was appointed Chair of the Remuneration Committee, having been a longstanding member of the Remuneration Committee. Following Richard Burrows' retirement, there was a short period where the Remuneration Committee only had two members; however, during this time no meetings of the Remuneration Committee were scheduled or held. Julie Southern joined the Remuneration Committee in November 2019 resulting in the Committee once again being comprised of three independent Non-Executive Directors.

The Remuneration Committee held three scheduled meetings during 2019 and details of the members of the Remuneration Committee and their attendance during the year can be found on page 72. Vanessa Evans, Group HR Director; Daragh Fagan, Group General Counsel & Company Secretary (secretary to the Committee to May 2019); Catherine Stead, Deputy Company Secretary (secretary to the Committee from May 2019); and Anna Fletcher, Group Head of Reward, also attend Remuneration Committee meetings.

The Group HR Director has direct access to the Chair of the Remuneration Committee and, together with the Group Head of Reward, advises the Remuneration Committee on remuneration matters relating to Executive Directors and members of the Executive Leadership Team. The Company Chairman also attends meetings and makes recommendations in relation to the remuneration and incentive arrangements for the Chief Executive. The Chief Executive attends meetings and makes recommendations in respect of remuneration arrangements for his direct reports. No Executive Director or member of the Executive Leadership Team is present when their own remuneration is under consideration.

The Remuneration Committee members have a broad and diverse set of skills and knowledge that, when combined, bring the necessary level of experience and know-how to ensure that remuneration matters are dealt with in a balanced, independent and informed manner. No member of the Remuneration Committee has any personal financial interest in the matters to be decided by the Remuneration Committee, other than as a shareholder. No member of the Remuneration Committee has any conflict of interest in carrying out

their role on the Remuneration Committee arising from other directorships nor does any member participate in any of the Company's incentive or pension arrangements or have any involvement in the day-to-day running of the Company.

Remuneration Committee effectiveness

The Remuneration Committee conducted an internal review of its performance during the year using tailored questionnaires. The review concluded that the Remuneration Committee continued to operate effectively and that individual Directors serving on the Remuneration Committee continued to have access to appropriate advice and information. Key areas of focus for the Committee in 2020 will be introduction of new Executive Director remuneration proposals, and the preparation and consultation on a new Directors' Remuneration Policy in advance of its presentation to shareholders at the 2021 AGM.

External advisors

Material advice and/or services were provided to the Remuneration Committee during the year by FIT Remuneration Consultants LLP (FIT) who are retained to provide independent advice on executive remuneration matters and on the Company's long-term incentive arrangements. FIT is a member of the Remuneration Consultants Group and adheres to its code in relation to executive remuneration consulting in the UK. Fees charged during the year for advice to the Remuneration Committee by FIT were £21,840. FIT also acts as remuneration adviser to the remuneration committee of Trustpilot A/S which Angela Seymour-Jackson chairs. However, the Remuneration Committee is satisfied that this has not impaired their independence in any way. FIT has no other material connections with the Company or any Director.

AGM voting outcomes

At the Company's last AGM on 8 May 2019, the outcome of the advisory vote in respect of the Directors' Remuneration Report was as follows. There was no vote on the Directors' Remuneration Policy at the 2019 AGM as it had been approved in 2018.

2019 AGM – Remuneration Report voting results

Votes for	1,435,131,079
Percentage for	94.92%
Votes against	76,826,941
Percentage against	5.08%
Total votes cast	1,511,958,020
Votes withheld (abstentions)	2,041,494

2018 AGM – Remuneration Policy voting results

Votes for	1,088,397,058
Percentage for	75.01%
Votes against	362,586,957
Percentage against	24.99%
Total votes cast	1,450,984,015
Votes withheld (abstentions)	52,008,445

A vote 'for' includes those votes giving the Chair discretion. A vote 'withheld' is not classed as a vote in law and is not counted in the calculation of proportion of votes cast for or against a resolution.

The Remuneration Committee is pleased with the level of shareholder support received at the 2019 AGM. The Company remains committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. In the event of a substantial vote against a resolution in relation to Directors' remuneration, the Company would seek to understand the reasons for any such vote and would set out in the following Annual Report any actions in response to it.

Activities of the Remuneration Committee

In 2019, the Remuneration Committee considered the following key areas:

Matters considered	Discussion and outcome	Find out more
Executive remuneration		
Executive Director remuneration	The Remuneration Committee considered and approved base salaries for 2019, bonus outcomes for 2018, bonus structure for 2019 and the 2019 PSP awards and targets for the Executive Directors.	See pages 98 to 106 for more information
Executive Leadership Team (ELT) remuneration	The Remuneration Committee considered and approved base salaries for 2019, bonus outcomes for 2018, bonus structure for 2019, and the 2019 PSP awards and targets for the members of the ELT. A review of their remuneration package was undertaken.	—
2016 Performance Share Plan (PSP) vest	The Remuneration Committee approved the vesting of the 2016 PSP awards as a result of the performance measures being met at 91.3% of maximum.	—
2019 PSP award	The Remuneration Committee noted a summary of the grants made under the PSP.	See page 99 for more information
2020 PSP award	The Remuneration Committee noted the proposed structure, targets and award levels for the 2020 PSP awards.	See page 107 for more information
PSP measures	The Remuneration Committee monitored the performance status of the outstanding awards under the PSP.	—
2020 annual bonus	The Remuneration Committee reviewed the overall structure of the 2020 annual bonus plan for Executive Directors and ELT members.	See pages 106 and 107 for more information
Executive Leadership Team appointments	During 2019 the Remuneration Committee considered the remuneration terms for the new appointments to the ELT.	See our ELT members on pages 66 and 67
Executive Director pension provision	The Remuneration Committee considered the pension provision for incumbent Directors and it was agreed that contributions would be brought in line with the wider workforce as part of the 2021 policy review. As an interim step, it was agreed that the CEO's pension would be capped and not increase in line with his salary increase, thereby reducing it from 25% to 21.9% of his salary from 1 January 2020.	Pension on page 106
Executive Director salary review	The Remuneration Committee considered proposals for a salary increase for the Chief Executive and Chief Financial Officer in 2020 and engaged with key investors and proxy agencies on the proposals.	Salary from 1 January 2020 on page 106
Governance and oversight		
Share dilution limits	The Remuneration Committee noted the impact of the Company's executive share plans on share dilution limits.	—
Terms of reference	The Remuneration Committee undertook its annual review of its terms of reference.	These are available on our website
Performance review	The Remuneration Committee undertook its annual review of the effectiveness of the Committee.	See Committee effectiveness on page 96
Corporate governance and proxy voting guidelines	The Remuneration Committee received two updates during 2019 on changes in corporate governance and proxy voting guidelines.	—
Gender Pay Report	The Remuneration Committee considered and approved the 2018 Gender Pay Report in February 2019 and noted the provisional figures for the 2019 Gender Pay Report in December 2019.	Read about diversity on page 46 and our reports are on our website
Directors' Remuneration Report	The Remuneration Committee reviewed and approved the Directors' Remuneration Report to be included in our 2018 Annual Report.	Available on our website
CEO pay ratio	The Remuneration Committee considered the new disclosure requirements and provisional data for the CEO pay ratio.	CEO pay ratio on page 104
Annual planner	The Remuneration Committee considered the annual planner for 2020 and approved an increase in the number of meetings to four.	—

The Chair of the Remuneration Committee presents a summary of material matters discussed at each meeting to the following Board meeting and minutes of the Remuneration Committee meetings are circulated to all Directors. The Remuneration Committee reports to shareholders annually in this report and the Chair of the Remuneration Committee attends the AGM to address any questions arising.

Directors' Annual Remuneration Report – 2019

Directors' remuneration in the year to 31 December 2019

Single total figure for the remuneration of Executive Directors

The table below has been audited.

	Year	Fixed pay			Variable pay		Total £'000	Value attributed to share price growth ^{6,7} £'000
		Base salary £'000	Benefits ¹ £'000	Pension ² £'000	Bonus ³ £'000	PSP ^{4,5} £'000		
Andy Ransom, Chief Executive	2019	765.3	19.8	191.3	1,069.0	2,512.3	4,557.7	1,125.9
	2018	750.3	78.6	187.6	628.3	3,317.3	4,962.1	1,931.6
Jeremy Townsend, Chief Financial Officer	2019	492.0	16.6	64.8	604.8	1,615.1	2,793.3	723.8
	2018	482.3	16.6	63.6	367.2	2,132.6	3,062.3	1,241.8

- Executive Directors are provided with life assurance, permanent health insurance and a car allowance. The value of the taxable benefit is included under 'Benefits' in the above table. There were no other taxable benefits paid to Executive Directors in 2018 or 2019.
- Andy Ransom receives a pension contribution, in the form of a cash supplement, worth 25% of base salary. Jeremy Townsend's pension contribution is 15% of base salary, which delivered as a cash supplement reduces to 13.2% of base to account for additional cost of employer NI contributions, in line with the practice for the wider workforce in the UK.
- 40% of the individual's bonus entitlement was awarded as deferred shares, which vest after a period of three years.
- The 2019 single total figure includes the 2017 PSP which is due to vest in March 2020. The value of the 2017 PSP at vest has been estimated based on the average of the Company's share price over the last financial quarter of 2019, giving a price of 446.5p, and the anticipated performance outcomes giving a vesting level of 90.8% detailed below. The actual value of the 2017 PSP will be restated next year once the final performance outcome and the share price at date of vesting are known.
- The 2016 PSP estimates included in the 2018 single figure have been restated. The award vested at 91.3% and has been restated to reflect the actual share price at the date of vesting on 12 May 2019 of 381.6p.
- The 2019 PSP award value attributed to share price growth is 200.1p per share (estimated share price at vest of 446.5p less share price at grant of 246.4p), which is 58.2% of the PSP value. The 2018 PSP award value attributed to share price growth is 222.2p per share (share price at vest of 381.6p less share price at grant of 159.4p), which is 44.8% of the PSP value.
- The Remuneration Committee has not exercised discretion as a result of this share price appreciation for either the 2016 or the 2017 PSP.

Performance Share Plan (PSP) and Deferred Bonus Plan (DBP) awards

The PSP is our long-term incentive plan which the Executive Directors, Executive Leadership Team and over 750 managers and technical experts participate in. This participation supports delivery of our strategic priorities. The DBP is the long-term incentive plan under which 40% of any bonus payable to the Executive Directors is deferred in shares.

2017 PSP award

In 2017, the Executive Directors were granted an award of shares under the PSP worth 200% of salary which was subject to two performance measures: relative TSR performance (with a weighting of two-thirds) and EPS growth (with a weighting of one-third). The EPS performance period for this award ended during the 2019 financial year. Vesting is on a straight-line basis between median and upper quartile performance for the TSR element of the award. No awards vest for below median performance. The TSR performance period for the 2017 award is measured over a three-year period ending during the 2020 financial year. The TSR element of the award is therefore estimated using the average of the Company's share price over the last financial quarter of 2019. Vesting is on a straight-line basis between threshold and target and between target and maximum for the EPS element of the award.

The outcomes for the 2017 PSP are summarised below.

Performance condition	Condition definition	Performance period	Threshold	Maximum	Actual/estimated result	Vesting level
Relative TSR (weighting two-thirds)	TSR measured against the FTSE 350 Index, excluding financial services, property and primary resources sectors.	31 March 2017 – 30 March 2020	If median rank is achieved 25% of the award vests.	If upper quartile rank is achieved 100% of the award vests.	98.9% increase in TSR. Ranked 12 out of 184 comparator companies. ¹	100% of the TSR element of the award is on track to vest in March 2020.
EPS (weighting one-third)	Annualised EPS growth.	1 January 2017 – 31 December 2019	6.9% ² p.a. for 25% of the EPS element to vest.	14.1% p.a. ² for 100% of the EPS element to vest.	11.5% p.a.	72.4% of the EPS element of the award to vest.

- The estimated outcome of the TSR element of the 2017 PSP has been based on performance to the end of December 2019. The numbers will be restated in next year's Annual Report to reflect actual performance.
- The EPS performance target for 2017 was originally threshold 6.5% and maximum 11.5%. The Remuneration Committee used its discretion to revise the targets upwards to threshold 6.9% and maximum 14.1% to reflect material acquisitions and disposals.

2017 PSP awards vesting

The aggregate number of shares anticipated to vest in 2020 is summarised in the table below. The table also includes an estimate of the number of additional shares relating to dividends accrued throughout the performance period which will be added to the final awards.

The table below has been audited.

	Date of award	Maximum award of shares	Proportion of relative TSR target met	Proportion of the EPS target met	Total number of shares post performance conditions	Dividend equivalent shares at vest	Total shares vesting	Value of shares vesting ^{1,2}
Andy Ransom	31 March 2017	597,048	100%	72.4%	542,119	20,557	562,676	£2,512,348
Jeremy Townsend	31 March 2017	383,814	100%	72.4%	348,503	13,215	361,718	£1,615,071

1. The value of the 2017 PSP at vest is estimated based on an average of the Company's share price over the fourth quarter of 2019 of 446.5p.

2. £1.1m and £0.7m of the estimated value of the 2017 PSP can be attributed to share price appreciation for Andy Ransom and Jeremy Townsend respectively.

PSP and DBP awards granted during the year

On 25 March 2019, Andy Ransom and Jeremy Townsend were granted an award of shares under the PSP worth 250% and 200% of salary respectively. The awards are subject to a three-year performance period and a two-year holding period post vesting. In addition Andy Ransom and Jeremy Townsend were also granted awards under the DBP which equated to 40% of the value of bonus earned under the 2018 Annual Bonus. These awards will vest after a period of three years with no further performance conditions.

The number of shares that vest under the PSP will be based on the following performance conditions and weightings:

Performance measures 2019-2022	Weighting	Threshold: 25% vesting	Target: 50% vesting	Maximum: 100% vesting
Relative TSR	50%	TSR performance is median measured against the FTSE 350 Index, excluding financial services, property and primary resources sectors	Straight-line vesting between threshold and maximum	Upper quartile TSR performance against the FTSE 350 Index, excluding financial services, property and primary resources sectors
EPS	25%	6% per annum	7.9% per annum	11% per annum
Organic Revenue growth	5%	3% per annum	3.5% per annum	4% per annum
Free Cash Flow conversion	5%	80%	85%	90%
Strategic measures				
– Sales and Service colleague retention	5%	Targets for these measures have not been disclosed as the Board believes that these measures are commercially sensitive. They will be based on straight-line vesting between threshold and target and between target and maximum performance which will be reported at vesting.		
– Customer satisfaction	5%			
– Energy efficiency	5%			

In addition, when determining the level of vesting, the Remuneration Committee will also consider the underlying financial performance of the business, as well as the value added for shareholders during the performance periods, and may adjust the vesting outcome if it considers this to be appropriate. Awards to Executive Directors under the 2019 PSP and DBP are set out in the table below.

2019 PSP and DBP award

The table below has been audited.

Participant	Date of award	Number of shares awarded ¹	Share price used to determine award	Exercise price	Face value of shares ³	Date of vest ⁴	Performance period end ²
PSP							
Andy Ransom	25 Mar 2019	551,987	346.6p	0.0p	£1,913,187 (250% of salary)	25 Mar 2022	24 Mar 2022
Jeremy Townsend	25 Mar 2019	283,879	346.6p	0.0p	£983,925 (200% of salary)	25 Mar 2022	24 Mar 2022
DBP⁵							
Andy Ransom	25 Mar 2019	72,505	346.6p	0.0p	£251,302	25 Mar 2022	24 Mar 2022
Jeremy Townsend	25 Mar 2019	42,373	346.6p	0.0p	£146,865	25 Mar 2022	24 Mar 2022

1. The figures shown for the number of share awards are maximum entitlements and the actual number of shares (if any) which vest under PSP will depend on the performance conditions being achieved as set out above.

2. For the PSP awards, the TSR condition will be measured over three years to 22 March 2022. The other performance conditions will be measured over three years to 31 December 2021. The PSP awards are subject to a holding period of two years which commences from the date of vest.

3. The face value of the award is based on the closing share price of 346.6p on 22 March 2019.

4. The awards granted were in the form of nil-cost options and may be exercised after vesting up to 10 years from the date of grant.

5. The DBP awards have no additional performance conditions beyond the three-year holding period.

Directors' Annual Remuneration Report – 2019

continued

Total PSP and DBP awards held by Executive Directors

The table below has been audited.

	Date of award	Share price used to determine award	Scheme interest at 1 Jan 2019	Shares awarded during 2019	Shares lapsed during 2019	Dividend equivalent shares at vest	Shares available for exercise during 2019	Dividend equivalent shares at exercise	Shares exercised during 2019	Outstanding awards at 31 Dec 2019	Performance period end
2012 PSP¹											
Andy Ransom	08/05/12	83.5p	163,625	–	–	–	163,625	–	–	163,625	07/05/15
2013 PSP¹											
Andy Ransom	30/04/13	96.0p	513,403	–	–	–	513,403	–	–	513,403	29/04/16
Andy Ransom	01/10/13	109.0p	388,853	–	–	–	388,853	–	–	388,853	29/04/16
2014 PSP¹											
Andy Ransom	31/03/14	123.4p	912,792	–	–	–	912,792	–	–	912,792	30/03/17
2015 PSP¹											
Andy Ransom	31/03/15	135.5p	883,906	–	–	–	883,906	–	–	883,906	30/03/18
Jeremy Townsend	31/03/15	135.5p	460,552	–	–	–	460,552	–	–	460,552	30/03/18
2016 PSP^{1,2,3}											
Andy Ransom	12/05/16	159.4p	913,776	–	79,956	35,504	869,324	–	–	869,324	10/03/19
Jeremy Townsend	12/05/16	159.4p	587,427	–	51,400	22,824	558,851	–	–	558,851	10/03/19
2017 PSP⁴											
Andy Ransom	31/03/17	246.4p	597,048	–	–	–	–	–	–	597,048	30/03/20
Jeremy Townsend	31/03/17	246.4p	383,814	–	–	–	–	–	–	383,814	30/03/20
2018 PSP⁴											
Andy Ransom	29/03/18	271.2p	553,300	–	–	–	–	–	–	553,300	28/03/21
Andy Ransom	14/05/18	271.2p	138,325	–	–	–	–	–	–	138,325	28/03/21
Jeremy Townsend	29/03/18	271.2p	355,690	–	–	–	–	–	–	355,690	28/03/21
2019 PSP⁵											
Andy Ransom	25/03/19	346.6p	–	551,987	–	–	–	–	–	551,987	24/03/22
Jeremy Townsend	25/03/19	346.6p	–	283,879	–	–	–	–	–	283,879	24/03/22
2019 DBP											
Andy Ransom	25/03/19	346.6p	–	72,505	–	–	–	–	–	72,505	24/03/22
Jeremy Townsend	25/03/19	346.6p	–	42,373	–	–	–	–	–	42,373	24/03/22

- Shares held by Andy Ransom under the 2012, 2013, 2014, 2015 and 2016 PSP awards are vested but unexercised. Shares held by Jeremy Townsend under the 2015 and 2016 PSP awards are vested but unexercised.
- The 2016 PSP award is entitled to receive dividend equivalents in the form of shares based on dividend payments between the date of grant and vesting. These are included in the total shares at vest. The awards are also entitled to receive dividend equivalents in the form of shares post vest based on dividend payments between the date of vest and the date one month before exercise. These shares are applied at exercise.
- The 2016 PSP award partially vested on 12 May 2019. Neither Andy Ransom nor Jeremy Townsend exercised their 2016 PSP award during the year.
- The 2017 and 2018 PSP awards have relative TSR and EPS performance measures which apply to two-thirds and one-third of the total award respectively. The performance period for the TSR element of the 2017 and 2018 PSP awards will be measured to 30 March 2020 and 28 March 2021 respectively. The EPS performance period will be measured to 31 December of the year preceding the vesting date. The vesting dates of the 2017 and 2018 PSP awards are 31 March 2020, 29 March 2021 and 14 May 2021 respectively.
- The 2019 PSP award has relative TSR, EPS, additional financial and strategic targets (see page 99 for details). The performance period for the TSR element of the 2019 PSP awards will be measured to 24 March 2022. The other performance conditions will be measured to 31 December 2021. The vesting date of 2019 PSP awards is 25 March 2022.
- The 2019 DBP award has no additional performance conditions beyond the three-year holding period.

Annual bonus 2019

The Remuneration Committee reviewed the 2019 bonus plan outcome for the Group's senior management population based on the targets set at the start of the financial year. The bonus plan supports delivery of our strategic priorities.

The annual bonus plan comprises three parts: gateway measures, company performance, and individual performance. This means that bonuses earned reflect the performance of the constituent businesses which make up the overall Group performance as well as achievement against specific personal objectives.

The gateway measures and Company performance are measured against financial targets. The Executive Directors had a maximum bonus opportunity of 150% of salary if the Company financial targets are achieved in full. Personal performance is accounted for using an individual performance modifier, which is linked to the Group's performance and development review process. This modifier can increase the maximum bonus opportunity up to 180% of salary, but also reduce the amount payable to 0%.

Gateway measures

For any bonus to be payable to an Executive Director, two gateway measures had to be met as follows:

- ➊ Profit Gateway: The Company must achieve at least 95% of the Ongoing Operating Profit target (£367.6m) which is £349.2m.
 - The outcome was £372.9m.
- ➋ Free Cash Flow Gateway: The Company must achieve Free Cash Flow generation of £170.0m.
 - The outcome was £250.7m.

Both gateway measures were satisfied.

Company performance measures

Executive Directors' bonuses were determined by achievement against two independent financial measures: Ongoing Revenue; and Ongoing Operating Profit (before restructuring costs) performance. These measures were given equal weighting.

Ongoing Revenue

Weighting – 50%

To support the delivery of profitable growth in 2019, and to ensure incentives are aligned with the Group's strategy, revenue targets for Executive Directors were weighted to focus on sectors that were critical to the business. To provide this focus, coefficients were applied to the revenue generated from the quadrants as follows:

Quadrant	Coefficient 2019
Pest Control – Emerging markets	1.5
Pest Control – Growth markets	1.1
Hygiene	0.89
Protect & Enhance	0.47

The targets used to assess ongoing revenue performance are disclosed below, along with the achievement against these targets.

	Threshold	On-target	Maximum	Result
Targets	£2,598.9m	£2,625.2m	£2,651.4m	£2,643.3
Targets as % of on-target	99%	100%	101%	100.69%
% of maximum bonus opportunity	10%	50%	100%	84.50%

Ongoing Operating Profit (before restructuring costs)

Weighting – 50%

The targets used to assess ongoing operating profit performance are disclosed below, along with the achievement against these targets.

	Threshold	On-target	Maximum	Result
Targets	£349.2m	£367.6m	£386.0m	£372.9m
Targets as % of on-target	95%	100%	105%	101.45%
% of maximum bonus opportunity	10%	50%	100%	64.50%

Individual performance modifier

The Executive Directors' personal performance is reflected in the bonus outcome through the individual performance modifier as set out in the table below. Performance is measured through the Group's performance and development review process and objectives include areas such as People, Customers, Safety, Systems, Governance & Control, and Key Strategic Projects.

The individual performance modifier is applied to the outcome of the Company performance element of the bonus. The individual performance modifier can only increase or decrease the outcome from the Company financial results, thereby ensuring that bonus payments are not made for individual performance when the Company's financial targets have not been met.

The individual performance modifier is applied to bonus payments for all global managers based upon objectives and behaviours, in exactly the same way as it is for Executive Directors.

The performance rating for the Chief Executive was 5 resulting in a 125% modifier applying to the bonus. The performance rating for the Chief Financial Officer was 4 resulting in a 110% modifier applying to the bonus. The assessment of the performance ratings, by the Chairman for the Chief Executive and by the Chief Executive for the Chief Financial Officer, took into account their key achievements during 2019 as detailed on page 102.

Performance rating and definition	1: Below standards required	2: Development required	3: Good performer	4: Exceeds expectations	5: Outstanding
Modifier	0%	75%	100%	110%	125% ¹

1. The maximum individual performance modifier that can be applied to the bonus is 125%. However, for the Executive Directors the annual bonus is capped at 180% of salary and for other members of the Executive Leadership Team at 120% of salary.

Directors' Annual Remuneration Report – 2019

continued

The table details the key achievements for the Chief Executive and Chief Financial Officer and was used to determine their performance rating.

Strategic objectives	Andy Ransom	Jeremy Townsend
Achieving greater profitability	<ul style="list-style-type: none"> Delivered above-target Ongoing Operating Profit and 10.5% growth. Successful delivery of revenue and profit growth in Hygiene. Above-the-line restructuring costs maintained at below £10m. Free Cash Flow of £250.7m, ahead of £170m target. Ensured that improvements in business performance were sustained and not negatively impacted by non-operational matters. 	<ul style="list-style-type: none"> Free Cash Flow of £250.7m, ahead of £170m target. Ongoing Revenue growth considerably above target. Above-target delivery of Ongoing Operating Profit and 10.5% growth. Successful refinance of €500m bond.
Increase earnings and returns	<ul style="list-style-type: none"> Investor relations strategy successfully executed. Share price increased by 37% in 2019, significantly outperforming the FTSE 100, which grew by 12%. Continued increase in dividend. 	<ul style="list-style-type: none"> Investor relations strategy successfully executed. Continued growth of shareholder base in North America. Continued increase in dividend.
Value enhancing M&A in Growth & Emerging markets	<ul style="list-style-type: none"> M&A plans exceeded in all areas: delivered 41 acquisitions in 2019 with combined annualised revenues of £137m. Successful disposal of joint venture to Haniel in July 2019. 	<ul style="list-style-type: none"> M&A supported revenue growth. Successful disposal of joint venture to Haniel in July 2019.
An Employer of Choice	<ul style="list-style-type: none"> Delivered world-class safety standards across the Group with an 16% improvement in Lost Time Accident rate and 26% improvement in Working Days Lost rate. Delivered world-class engagement and enablement scores following the 2019 YVC employee survey. Continued improvement of Service and Sales colleague retention. High-quality service provider and employer maintaining a 5 star rating on Trustpilot and number 1 in the Top Rated Workplace by Indeed, along with an above average overall rating on Glassdoor of 4.4 compared to UK average of 3.5. 	<ul style="list-style-type: none"> Improved YVC scores for global Finance function. Successfully built talent and succession pipeline in IT, resulting in the transition of the CIO role to an internal candidate in Q2 2019. Progress made in Finance talent and succession build, with some key internal appointments made in 2019.
Leading the field in innovation	<ul style="list-style-type: none"> Strong pipeline of innovation to target key pest groups of rodents and insects. Successful delivery of digitally remastered frontline service provision. 	<ul style="list-style-type: none"> Continued progress made on robotics and artificial intelligence opportunities.

2019 bonus outcome

The table below brings together the Company performance outcome and individual performance modifier to give the bonus outcome for the Chief Executive and Chief Financial Officer. The table below has been audited.

	Ongoing Operating Profit gateway	Free Cash Flow gateway	Ongoing Operating Profit (50% weighting)	Ongoing Revenue (50% weighting)	Total (before individual performance modifier)	Individual performance modifier	Total
Andy Ransom, Chief Executive							
Performance against target	✓	✓	101.45%	100.69%			
Bonus outcome as % of salary			48.37%	63.37%	111.75%	125%	139.69%
Bonus outcome for 2019					£855,196		£1,069,014
Bonus deferred into shares							£427,606
Balance of bonus payable							£641,408
Jeremy Townsend, Chief Financial Officer							
Performance against target	✓	✓	101.45%	100.69%			
Bonus outcome as % of salary			48.37%	63.37%	111.75%	110%	122.93%
Bonus outcome for 2019					£549,770		£604,711
Bonus deferred into shares							£241,908
Balance of bonus payable							£362,863

Single total figure for the remuneration during 2019 of the Chairman and Non-Executive Directors

The table below has been audited:

Chairman and Non-Executive Directors	Fees 2019 £'000	Fees 2018 £'000	Benefits 2019 £'000	Benefits 2018 £'000	Total 2019 £'000	Total 2018 £'000
John McAdam ¹	126.8	357.0	13.2 ¹	36.4 ¹	140.0	393.4
Richard Solomons ²	254.3	—	—	—	254.3	—
Richard Burrows ³	30.4	85.0	—	—	30.4	85.0
Sir Crispin Davis ⁴	30.0	60.0	—	—	30.0	60.0
John Pettigrew ⁵	66.9	60.0	—	—	66.9	60.0
Angela Seymour-Jackson ⁶	69.7	60.0	—	—	68.1	60.0
Julie Southern	75.0	75.0	—	—	75.0	75.0
Linda Yueh	60.0	60.0	—	—	60.0	60.0

1. John McAdam retired on 8 May 2019. The benefit relates to the private use by the Chairman of a Company driver and vehicle.

2. Richard Solomons was appointed to the Board on 1 March 2019 and as Chairman on 8 May 2019.

3. Richard Burrows retired on 8 May 2019.

4. Sir Crispin Davis resigned from the Board on 30 June 2019.

5. John Pettigrew was appointed as Senior Independent Director on 8 May 2019 replacing Richard Burrows.

6. Angela Seymour-Jackson was appointed as Remuneration Committee Chair on 8 May 2019 replacing Richard Burrows.

Directors' shareholdings and share interests

Directors' share interests

The interests of the Directors and their families in the share capital of the Company as at 31 December 2019, or their date of cessation if earlier, and at 31 December 2018, or their date of appointment if later, are set out below. No Director has any beneficial interest in the shares of any of the Company's subsidiaries. This table has been audited.

	Number of ordinary shares as at 31 Dec 2019	Number of ordinary shares as at 31 Dec 2018
Richard Solomons ¹	25,000	—
Andy Ransom ²	1,562,544	1,562,544
Jeremy Townsend ³	734,099	734,099
John Pettigrew	10,000	—
Angela Seymour-Jackson	10,574	10,574
Julie Southern	5,000	5,000
Linda Yueh	1,590	1,590

1. Richard Solomons was appointed to the Board on 1 March 2019.

2. Andy Ransom has an interest in 3,731,903 vested PSP shares from the 2012, 2013, 2014, 2015 and 2016 awards which he has not yet exercised.

These figures are not included in his beneficial interest of shares figure at 31 December 2019 above but are included in the share award table below.

3. Jeremy Townsend has an interest in 1,019,403 vested PSP shares from the 2015 and 2016 awards which he has not yet exercised. These figures are not included in his beneficial interest of shares figure at 31 December 2019 above but are included in the share award table below.

There has been no change to the current Directors' shareholdings between 31 December 2019 and 26 February 2020.

Executive shareholdings

All Executive Directors are required to hold shares equivalent in value to a percentage of their salary within a five-year period from their appointment date. For the Chief Executive, this requirement is 300% of annual salary and 200% of annual salary for the Chief Financial Officer.

As of 31 December 2019, the Executive Directors have met and substantially exceeded the minimum shareholding requirement.

The table below sets out the number of shares held at 31 December 2019 by each Executive Director. Shares owned outright include those held by connected persons. This table has been audited.

	Shareholding requirement as a % of salary	Number of shares owned outright	Value of shareholding as at 31 Dec 2019 ¹	Shares owned outright as a % of salary	Interest in PSP share awards as at 31 Dec 2019
Andy Ransom	300%	1,562,544	£7,078,324	925%	5,572,563
Jeremy Townsend	200%	734,099	£3,325,468	676%	2,042,786

1. The share price is based on the closing share price on 31 December 2019 of 453.0p.

Directors' Annual Remuneration Report – 2019 continued

Remuneration in context

Wider workforce policy

During 2019, the Company had an average of 42,933 colleagues based in 81 countries. We have a broad remuneration policy which reflects the diversity of cultures, legislative environments, employment markets and the types and seniority of roles that this geographic spread requires. We structure our colleague reward to enable us to recruit and retain the right people, doing the right job for our customers.

Wider workforce engagement

Remuneration Committee engagement with our colleagues forms part of the wider workforce engagement undertaken by the Board of Directors as set out on page 76. In addition, the Remuneration Committee received and reviewed details of the wider workforce remuneration when considering the base pay, bonus, PSP awards and outcomes for the Executive Directors and the Executive Leadership Team throughout 2019. The UK and global workforces were also considered when reviewing pension contribution levels for Executive Directors.

CEO pay ratio

The CEO pay ratio compares the CEO single figure earnings to the single figure earnings of UK employees. It has been calculated using method A, where the employees at each quartile are identified using details of their full-time equivalent pay and benefits for 2019. The table below shows the ratios at the 25th percentile, median and 75th percentile for 2019, and to give context 2018 figures are also included.

The ratios have improved from 2018 to 2019. This is mainly due to the value of the CEO's PSP being slightly lower in 2019, see page 98.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019	A	220:1	173:1	119:1
2018	A	229:1	189:1	145:1

This table will be built on over time to cover a rolling 10-year period and will include reasons for the changes to the ratios from year to year. However, it is anticipated that variations in the PSP and annual bonus outcomes will have the biggest impact on the ratios from year to year. For PSP, this is due to vesting levels and the share price changing from year to year. For annual bonus, although our comparator employees are also eligible for bonus, the CEO is targeted on Group-level outcomes, whereas our comparator employees are based on their specific remit, which given the UK makes up only a small percentage of Group, means the outcomes may vary from year to year.

The median pay ratio is consistent with the pay, reward and progression policies for the Company's UK employees taken as a whole. We have a consistent approach to reward across the Group and employees' packages are set with reference to the external market.

Gender pay gap

We continue to have no material gender pay gap between men and women, with further reductions in the gap resulting in a median of -2% down from 1% (mean -6%), which is significantly better than the UK average of 17.3% reported by the Office for National Statistics. In addition, we are particularly proud of our improvements in our bonus gap which has reduced from 37% to 9%. This achievement is mainly due to the decision in 2016 to extend our Performance Share Plan beyond our senior managers enabling operational and functional managers to share in the success of our Company.

While these are encouraging results overall, and we continue to make good progress in building our female representation in senior management roles (on a like-for-like basis female colleagues now account for 31% of roles compared to 27% in 2017) and our 2019 employee survey shows that 96% of colleagues believe that we do not preclude male and female colleagues from having equal opportunities to succeed, we remain focused on making Rentokil Initial an even more diverse and inclusive place to work, in line with our **RIGHT WAY** plan. Our key areas of focus continue to be increasing the number of female frontline technicians and improving the proportion of females in senior manager roles in our head office functions.

Relative importance of spend on pay

The table below sets out amounts paid in total employee costs and total dividends paid for the years ended 31 December 2019 and 31 December 2018.

	2019 ¹ £m	2018 ¹ £m	% change
Remuneration paid to all employees of the Group	£1,312.2	£1,191.2	10.2% increase
Distributions to shareholders	£85.8	£74.2	15.6% increase

1. The average number of people employed by the Group during the year was 42,933 in 2019 and 39,480 in 2018.

Details of the remuneration paid to all employees can be found in Note A9 to the Financial Statements on page 136. Details of the dividends declared and paid during the periods are contained in Note D1 to the Financial Statements on page 159.

Percentage change in remuneration

The table below sets out a comparison of the change in pay for the Chief Executive for the year ended 2019 compared with 2018 and to all UK employees. The Chief Executive is based in the UK and as such is impacted by the same economic and legislative environments as other UK colleagues.

Average base salary for all UK employees includes overtime and premium rate pay, which is flexed to meet business requirements, as well as annual and out-of-cycle pay increases and headcount changes during the year. All bonus schemes are performance related and reflect business performance during the year.

	Base salary ¹	Annual bonus ²	Benefits ^{3,4}	Total
Chief Executive	2% increase	70.2% increase	74.8% decrease	24.4% increase
All UK employees ⁵	3.2% increase	4.8% increase	3.6% increase	3.4% increase

1. Base salary includes overtime and allowances.
2. Annual bonus includes our Group Management Bonus Scheme (GMBS) and any other bonus commission or cash incentive but excludes any long-term incentives.
3. Benefits include private healthcare, car allowance, cars, fully expensed fuel cards and commercial vans (private use). The large decrease for the Chief Executive is driven by the security costs provided as a one-off in 2018.
4. Pension and retirement benefits are not included in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.
5. All UK employees of the Group include Executive Directors (apart from the Chief Executive) but not Non-Executive Directors.

Shareholder engagement

In 2019, the Remuneration Committee continued to engage with leading shareholders and their representative bodies. The main activities included the introduction of our new Remuneration Committee Chair, Angela Seymour-Jackson and seeking feedback on the planned salary increases for the Chief Executive and Chief Financial Officer and were conducted through a mixture of calls, emails and letters. Other topics discussed with shareholders were the performance conditions of our Performance Share Plan, the potential reduction of our incumbent Executive Directors' pension benefit to be in line with the wider workforce and post-employment shareholding. The feedback from our shareholders was greatly appreciated and helped inform the Remuneration Committee's thinking on key topics.

Use of discretion

The Remuneration Committee is cognisant of its responsibility to make informed and thoughtful decisions on remuneration that are both balanced and in the long-term interests of the business and shareholders and, where necessary, will apply discretion to remuneration targets or outcomes that otherwise would be inappropriate. The application of discretion over the last four years is detailed on page 93 and has mainly focused on the increase of EPS targets to take account of material acquisitions and disposals.

Chief Executive remuneration over a 10-year period

Chief Executive	Single total figure for remuneration	Annual bonus pay-out versus maximum opportunity	% long-term incentive vesting rates versus maximum opportunity
2010 – Alan Brown	£989,000	0.0%	0.0%
2011 – Alan Brown ¹	£3,564,971	0.0%	22.0%
2012 – Alan Brown	£1,115,000	13.3%	0.0%
2013 – Alan Brown ²	£994,396	27.0%	0.0%
2013 – Andy Ransom ²	£401,006	28.7%	0.0%
2014 – Andy Ransom	£1,326,045	51.4%	0.0%
2015 – Andy Ransom	£1,655,757	59.1%	15.1%
2016 – Andy Ransom	£5,581,304	72.2%	67.5%
2017 – Andy Ransom	£3,969,607	70.1%	80.3%
2018 – Andy Ransom ³	£4,962,076	55.8%	91.3%
2019 – Andy Ransom ⁴	£4,557,764	93.1%	90.8%

1. The 2011 single total figure for Alan Brown, the Chief Executive at the time, includes the value of the 2008 Share Incentive Plan of £2,573,971 which was valued on the release date of 20 May 2011. These shares were called for during 2014.

2. Alan Brown was appointed as Chief Executive on 1 April 2008 and stepped down on 30 September 2013; Andy Ransom was appointed from that date. The single total figure has been apportioned to reflect payment during these periods.

3. The 2018 single total figure for the Chief Executive, Andy Ransom, includes the restated value of 869,324 shares under the 2016 PSP award which vested at 91.3% on the 12 May 2019, based on the closing share price on 12 May 2019 of 381.6p.

4. The 2019 single total figure includes the estimated value of 562,676 shares under the 2017 PSP award which is due to vest on 31 March 2020 based on the average share price over the fourth quarter of 2019 of 446.5p.

UK Corporate Governance Code provisions

During 2019, the Remuneration Committee has addressed the factors set out in Provision 40 of the UK Corporate Governance Code as set out below:

- ➊ **Clarity** – When considering and structuring any element of remuneration the Remuneration Committee aims to be as straightforward and transparent as possible. It looks to ensure that the remuneration vehicles it uses are clear and understandable and the targets, outcomes and any other decisions are communicated in an open and detailed way. The Remuneration Committee has endeavoured to ensure that, in approving the Directors' Remuneration Report, they are providing an extensive and clear picture of the remuneration arrangements and decisions undertaken each year. For instance, when considering the proposed salary increases for the Executive Directors in 2020, the Remuneration Committee discussed how clear and understandable adopting a phased approach would be and reached the conclusion that one single increase was more transparent and fair to both shareholders and the Executive Directors (see page 106).
- ➋ **Simplicity** – When determining the structure and mechanisms of remuneration packages consideration is given to ensuring that complexity is avoided and that both our colleagues and our shareholders are able to understand both the rationale for and the operation of any incentive easily. In 2019, the Remuneration Committee introduced five new performance measures to the PSP (see page 99). While the Remuneration Committee considered carefully the added complexity of the increased number of measures, it felt that this was more than offset by the increased alignment with our strategy and the fact that colleagues used these metrics to manage the business on a daily basis and would therefore feel able to directly influence and impact them.

➌ **Risk** – The Remuneration Committee has a history of restraint and closely monitors remuneration structures and outcomes in relation to the strategy and financial performance in order to ensure that only appropriate behaviour is incentivised and rewards are not excessive. The Committee has shown a willingness to apply discretion to adjust targets upwards where it has felt it is appropriate and outcomes could otherwise misalign with performance and therefore create a risk to the business and shareholders (see page 93). Risk is also considered in the context of the Group's wider risks (see Risks and Uncertainties on pages 55 to 59).

➍ **Predictability** – The Remuneration Committee encourages and oversees the use and replication of our annual bonus and PSP schemes globally and deep into the organisation, ensuring employees understand and become familiar with how we recognise and reward performance, and that as many people as possible share in the success of the organisation. Remuneration structures, including grading and reward programmes, are consistently applied and appropriate at each level of the organisation.

➎ **Proportionality** – The Remuneration Committee seeks to ensure that remuneration pay-outs awarded to the Executive Directors, the Executive Leadership Team and the wider workforce are consistent with performance outcomes and with the experience felt by shareholders. The Committee considers carefully the stretch built into targets and ensures that outcomes linked to certain levels of performance are stretching, while achievable, and therefore motivating for colleagues, as well as satisfying shareholder expectations.

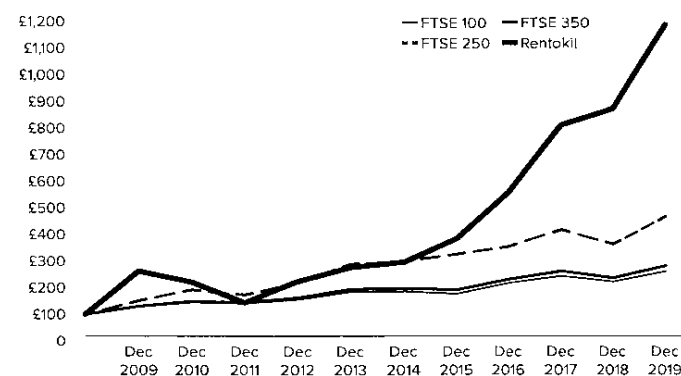
➏ **Alignment to culture** – The Remuneration Committee strives to ensure that remuneration arrangements drive both financial and non-financial performance, as well as behaviours consistent with our purpose, values and vision. A summary of our culture can be found on pages 20 and 21. Our colleagues are integral to our business model as set out on pages 18 and 19 and as such the Remuneration Committee has regard to the balance of fixed and variable pay to ensure the right level of reward and incentive is available to both recruit and retain the talent needed to deliver our long-term strategic plan.

TSR performance over a 10-year period relative to FTSE Index

The following graph shows total shareholder return (TSR) over a 10-year period reflecting the holding of the Company's shares, plotted against the FTSE 100 Index, the FTSE 250 Index and the FTSE 350 Index, on a consistent basis with the graph shown last year. The Company has been a constituent of one or more of these indices over the 10-year period that is shown. This chart is based on data sourced from Thomson Reuters DataStream and uses spot Return Index data at each year end.

Rentokil Initial plc's TSR compared against the TSR of FTSE 100, FTSE 250 and FTSE 350 indices over a 10-year period

Total shareholder return



Payment for loss of office (audited)

There were no payments for loss of office to Directors during 2019 and no payments to former Directors.

Directors' Annual Remuneration Report – Looking forward 2020

Executive Director base salaries from 1 January 2020

Executive Directors' and ELT salaries are reviewed with effect from 1 January each year in accordance with the prevailing policy. When reviewing salary levels, the Remuneration Committee takes into account a number of internal and external factors, including Company performance during the year, external market data and the salary review principles applied to the rest of the organisation to ensure a consistent approach.

Base salaries reflect the role, individual experience, skills and contribution to overall business performance as well as external market conditions. The Remuneration Committee has historically shown restraint around pay levels and adjusted Executive Director pay downwards when the business was not performing and leading up to it falling out of the FTSE 100 back in 2009, as shown by the historical CEO salaries: Sir Clive Thompson (1983–2003) – £1,100,000, Doug Flynn (2005–2008) – £900,000 and Alan Brown (2008–2013) – £775,000. Andy Ransom's salary on appointment was £700,000. In addition, Executive Directors' pay has either been frozen or increased in line with the wider workforce for over 10 years, without recognising the growth in the Company (and, therefore, the relevant benchmarks) over that time.

Following a review of the performance of the business, the economic and market considerations in the UK, the Remuneration Committee agreed that the salaries of Executive Directors for 2020 should be increased as set out below. This decision followed engagement with and feedback from shareholders between November 2019 and February 2020, from which emerged a strong show of support for the proposed salary changes.

Salary from 1 January 2020

Executive Director	Salary	Effective date
Andy Ransom – Chief Executive	£875,000 (14.3% increase)	1 January 2020
Jeremy Townsend – Chief Financial Officer	£550,000 (11.8% increase)	1 January 2020

Rationale for increases

The Remuneration Committee considered a phased approach to the salary increases, but this was not taken forward. The one step increase gives a clear and transparent total increase and closes the significant gap to current market salary levels enabling a return to our normal approach of restraint.

The rationale for the increases are as follows:

- The Company has grown in size considerably since the CEO and CFO were appointed, moving from around FTSE 150 to FTSE 50 and growing market cap from £2.0bn to around £9.0bn.
- The current incumbents' salaries are low compared to other CEO and CFOs in similar companies, which does not fit with the principles applied to the wider workforce of ensuring that pay is fair and competitive.
- The CEO and CFO are high performing with an excellent track record in delivering both Company performance and growth as evidenced through delivering a TSR of 302.7%, growth in PBT of 185.4% and revenue growth of 15.1% since 2013. This makes both highly attractive beyond the FTSE and the UK.
- However, while it was recognised that the performance of our CEO and CFO is demonstrably higher than that of a 'median' executive, it was decided to align pay around the median level, demonstrating continued pay restraint.

While it was recognised that the external environment is not conducive to material pay increases, the Remuneration Committee thought long and hard about the change and ultimately decided that this adjustment was both a fair reflection of the contribution the individuals bring to the business and fully aligned with shareholders' interests.

In light of Jeremy Townsend's decision to retire, careful consideration was given to whether the salary increase applied to him should be reversed. However, given the purpose of the review was to ensure

that we are rewarding our executives fairly and that the transition is expected to last for a significant part of the year, it was felt appropriate that he continue to receive the increase.

Pension

Following careful consideration of the guidance for Executive Directors' pensions, the Remuneration Committee determined that Executive Directors' pensions will be brought in line with the wider workforce by the end of 2022. As a first step, the Chief Executive's pension has been frozen from 1 January 2020, reducing it from 25% to 21.9% of salary. A plan to bring the incumbent Executive Directors pensions in line with the wider workforce by the end of 2022 will be established as part of the Directors' Remuneration Policy review, which is due for renewal in 2021.

The wider workforce rate has been determined to be 3%, which is the pension benefit received by our frontline colleagues in the UK, who account for around 85% of employees in the UK. A rate based on all colleagues across the Group was considered by the Remuneration Committee, but rejected due to the complexity and the potential instability of the rate as the Company continues to grow.

Should any recruitment be undertaken at this level prior to the new Policy being implemented, the pension offered will be reduced from the Policy level of 15% to the wider UK workforce level of 3%.

Fixed pay for 2020 will be:

	Base salary from 1 Jan 2020 £'000	Estimated benefits (for 2020) £'000	Pension based on salary from 1 Jan 2020 £'000	Total fixed pay £'000
Andy Ransom – Chief Executive	875.0	19.8	191.3	1,086.1
Jeremy Townsend – Chief Financial Officer	550.0	16.6	82.5	649.1

How will incentives be aligned to the business strategy in 2020?

The table below shows how the business strategy and the KPIs which underpin it are reflected in the annual bonus plan and long-term incentive performance measures for the Executive Directors in 2020.

Strategic priorities	Annual Bonus Plan performance measures for 2020	PSP performance measures for 2020–23
Achieving greater profitability	Ongoing Operating Profit, Free Cash Flow	Relative TSR, EPS, Organic Revenue growth, and Free Cash Flow conversion
Increase earnings and returns	Ongoing Revenue	
Value enhancing M&A in Growth & Emerging markets	Personal goals	None
An Employer of Choice	Personal goals	Sales and Service colleague retention
Leading the field in innovation	Personal goals	Customer satisfaction and fuel efficiency

2020 bonus structure

Executive Directors have the following bonus opportunity as a percentage of base salary.

	Threshold	Target	Maximum	Maximum after individual modifier
Andy Ransom – Chief Executive	15%	75%	150%	180%
Jeremy Townsend – Chief Financial Officer	15%	75%	150%	180%

40% of any bonus earned will be deferred into shares for three years. The focus of the bonus is on rewarding profitable growth in order to align Executive Directors' incentives with the Group's strategy. The Remuneration Committee has approved the following proposed structure of bonuses for 2020 for the Executive Directors:

- ➊ **Gateways:** 95% of the profit target and a Free Cash Flow gateway of £200m have to be reached at Group level before a bonus can be paid to the Executive Directors.
- ➋ **Company performance:** If both these profit and cash flow gateways are achieved then Executive Directors can earn up to 150% of base salary based on a combination of revenue and profit targets. This is split 50% profit: 50% revenue for both the Chief Executive and the Chief Financial Officer.

Revenue targets for Executive Directors will continue to be weighted to focus on the categories that will set the foundations for longer-term profitable growth. To provide this focus the following coefficients will be applied to revenue generated from the business segments, as described in the Strategic Report.

	Coefficient 2020
Pest Control – Emerging markets	1.5
Pest Control – Growth markets	1.1
Hygiene	0.9
Protect & Enhance	0.39

The co-efficients are applied to the total revenue in each business category.

Bonus targets have not been disclosed looking forward for 2020 as the Board believes that this information is commercially sensitive. Disclosing bonus targets could provide information about our business plans to our competitors which could be damaging to our business interests and therefore to shareholders. However, retrospective bonus outcomes for 2019 have been disclosed in the table on page 101, and the 2020 targets will be disclosed in next year's Annual Report.

- ➌ **Individual performance modifier:** This may increase or decrease the opportunity arising from the Company performance against the revenue and profit targets, as outlined below, to further recognise individual contribution to business performance. This individual performance modifier applies to all colleagues who participate in the Group Management Bonus Scheme (GMBS) and is measured by the Company's performance and the development review process.

Performance rating and definition	1: Below standards required	2: Development required	3: Good performer	4: Exceeds expectations	5: Outstanding
Modifier	0%	75%	100%	110%	125% ¹

1. The maximum individual performance modifier that can be applied to the bonus is 125%. However, for the Executive Directors the annual bonus is capped at 180% of salary and for the Executive Leadership Team at 150% of salary.

2020 PSP award

The Executive Directors' PSP award for 2020 will be over shares up to a maximum of 250% of base salary for the Chief Executive. The Chief Financial Officer would normally receive an award over shares up to a maximum of 200% of base salary. However, in light of Jeremy Townsend's announced intention to retire in the second half of 2020 (see page 108), he will not receive an award in 2020. Shares under the awards will be released no earlier than five years after grant (i.e. following a three-year vesting period and a two-year holding period). Vesting of this award will be determined by the Company's performance as follows and performance between targets will be calculated on a straight-line basis:

Performance measures 2019–2022	Weighting	Threshold: 25% vesting	Target: 50% vesting	Maximum: 100% vesting
Relative TSR ¹	50%	TSR performance is median against comparator group	Straight-line vesting between threshold and maximum	Upper quartile TSR performance against comparator group
EPS ²	25%	6.0% per annum	7.9% per annum	11% per annum
Organic Revenue growth	5%	3.0% per annum	3.5% per annum	4.0% per annum
Free Cash Flow conversion	5%	80%	85%	90%
Strategic measures ³				
– Sales and Service colleague retention	5%	Targets for these measures have not been disclosed as the Board believes that these measures are commercially sensitive. They will be based on straight-line vesting between threshold and target and target and maximum performance which will be reported at vesting.		
– Customer satisfaction	5%			
– Vehicle fuel efficiency	5%			

- The TSR index of comparators for this cycle will be the constituents of the FTSE 350 Index, excluding financial services, property and primary resources sectors.
- The EPS is measured on a point-to-point basis over the three-year period of the award. EPS is measured after adjusting for impairments, amortisation, pension interest and material one-off items, as the Remuneration Committee considers that these items do not reflect the underlying performance of the business. Given the Company's continued focus on improving efficiency and reducing costs around restructuring, restructuring costs are included in the EPS calculation in order to incentivise management to maintain focus in this area. Given the international nature of our business, EPS is measured on an exchange neutral basis to reflect management performance by removing the impact of windfalls and losses as a result of exchange rate movements.
- The strategic measures will be measured over the three-year performance period. Colleague retention will be measured on average overall Sales and Service colleague retention; customer satisfaction will be measured in average Customer Voice Counts scores; and vehicle fuel efficiency will be measured against an average reduction across our key countries.

The Remuneration Committee is satisfied that these targets represent a stretching range in light of all relevant factors including the current business plan and analysts' forecasts.

When determining the level of vesting, the Remuneration Committee will also consider the underlying financial performance of the business, as well as the value added to shareholders during the performance periods, and may adjust the vesting outcome if it considers this to be appropriate.

Directors' Annual Remuneration Report – Looking forward 2020

continued

Illustration of proposed Directors' Remuneration Policy for 2020

The charts below provide an illustration of what could be received by each of the Executive Directors in 2020 including how a 50% increase in the share price could impact what they receive.

These charts are illustrative as the actual value that will be received will depend on business performance in 2020 for the bonus and in the three-year period to 2023 for the PSP, as well as share price performance to the date of exercise for awards made under the Deferred Bonus Plan and the PSP.

Our remuneration arrangements are designed so that a significant proportion of pay is dependent on the delivery of short and long-term goals that are aligned with our strategic objectives and the creation of shareholder value.

Chief Executive – Andy Ransom

1. Maximum opportunity after application of the individual performance modifier.

Chief Financial Officer – Jeremy Townsend

The details below are for illustrative purposes only and show the CFO package if Jeremy was in role for the full year. Due to his announced intention to retire, this is not reflective of what Jeremy will receive in 2020 (see Director changes opposite for details).

1. Maximum opportunity after application of the individual performance modifier.

Key

● Fixed pay

Includes all elements of fixed remuneration:

- base salary (effective 1 January 2020), as shown in the table on page 106;
- pension and benefits.

● Annual bonus including Deferred Bonus Plan

Represents the potential value of the annual bonus for 2020, as shown on page 107. 40% of any bonus would be deferred into shares for three years and this is included in the value shown.

● Performance Share Plan (PSP)

Represents the potential value of the PSP to be awarded in 2020, which would vest in 2023 subject to performance against the targets disclosed on page 107. Awards would be held for a further two years.

● 50% share price growth

Represents the potential impact of a 50% share price increase. This has been applied to the PSP and DBP.

2020 Non-Executive Directors' fees

Non-Executive Director fees from 1 January 2020

Position	Fee policy for year beginning 1 January 2020 ¹
Chairman	£375,000 per annum
Non-Executive Director	£60,000 per annum
Senior Independent Director	Additional £10,000 per annum
Chairman of Audit Committee	Additional £15,000 per annum
Chairman of Remuneration Committee	Additional £15,000 per annum

1. Non-Executive Director and Senior Independent Director fees were increased on 1 September 2017.

Director changes

As detailed in the Nomination Committee Report, Jeremy Townsend, Group Chief Financial Officer, has announced his intention to retire in the second half of 2020 and will be succeeded by Stuart Ingall-Tombs, currently Chief Financial Officer for North America.

Jeremy Townsend

Jeremy is expected to be treated as a good leaver and his leaving terms will be in line with the current Directors' Remuneration Policy (see page 109) and are summarised below. In light of Jeremy's decision, careful consideration was given to whether the salary increase applied to him should be reversed. However, given the purpose of the review was to ensure that we are rewarding our executives fairly and that the transition is expected to last for a significant part of the year, it was felt appropriate that he receive the increase.

- His salary, pension and benefits will be paid for the duration that Jeremy remains in his role.
- He will be eligible for a pro rata annual bonus for the 2020 financial year.
- He will not receive a PSP award for 2020.
- His PSP awards that have vested, but are still in their holding period will be retained in full and released at the end of holding period.
- He will receive a pro rata of PSP awards that are in the performance period and these awards will vest subject to the achievement of performance conditions and vesting schedule and will be released following the two-year holding period.
- Deferred Bonus Plan awards will be retained in full and released at the end of the deferral period.

Stuart Ingall-Tombs

As part of the succession process, the Remuneration Committee has considered the remuneration package for the new Chief Financial Officer and following his appointment, which is expected to take place in the second half of 2020, Stuart will receive the following terms:

- His starting base salary will be £500,000. This is below the median pay for the role, and we intend to move him to a median salary of £550,000 once he has been in role for 12 months, assuming both his and the Company's performance is satisfactory. He would then be considered for normal salary reviews from January 2023.
- His pension contribution will be 3% in line with the wider UK workforce.
- He will be eligible for an annual bonus for the 2020 financial year on a pro rata basis.
- All other package elements will be aligned with the Directors' Remuneration Policy. See pages 110 and 111 for details.

Full details of Jeremy Townsend's and Stuart Ingall-Tombs' remuneration will be included in the 2020 Directors' Remuneration Report.

Summary of 2018 Directors' Remuneration Policy

Recruitment – Executive Directors

The Remuneration Committee's key principle when determining appropriate remuneration arrangements for a new Executive Director (appointed from within the organisation or externally) is to ensure that arrangements are in the best interests of both the Company and its shareholders, without paying more than is considered necessary by the Remuneration Committee to recruit an executive of the required calibre to develop and deliver the business strategy.

When determining appropriate remuneration arrangements the Remuneration Committee will take into account all relevant factors. These factors may include (among others): the level and type of remuneration opportunity being forfeited; the jurisdiction the candidate was recruited from and whether any relocation is required; the skills, experience and calibre of the individual; the circumstances of the individual; and the current external market and salary practice including market practice on additional benefits.

The Remuneration Committee would generally seek to align the remuneration package offered with our Policy outlined in the table on pages 110 and 111. However, the Remuneration Committee may offer additional variable remuneration arrangements in respect of an Executive Director's appointment that it considers appropriate and necessary to recruit and retain the individual. Any variable remuneration awarded in respect of the Executive Director's appointment shall be limited to 480% of base salary; this reflects our bonus policy (180% of salary) and the level of award under the PSP in exceptional circumstances (300% of salary). This limit excludes any awards made to compensate the Executive Director for remuneration forfeited from their previous employer. If appropriate, different measures and targets may be applied to a new appointment's annual bonus in the year of joining.

The Remuneration Committee may make awards on appointing an Executive Director to 'buy out' remuneration terms forfeited on leaving a previous employer. In doing so, the Remuneration Committee will take account of relevant factors including any performance conditions attached to these awards, the form in which they were granted (e.g. cash or shares) and the time over which they would have vested. Generally, buy-out awards will be made on a comparable basis to those forfeited.

In the event of recruitment, the Remuneration Committee may grant awards to a new Executive Director under Listing Rule 9.4.2R which allows for the granting of awards, to facilitate, in unusual circumstances, the recruitment of an Executive Director, without seeking prior shareholder approval or under other appropriate Company share plans. The use of Listing Rule 9.4.2R will be limited to granting buy-out awards only.

In the event that an internal candidate was promoted to the Board, legacy terms and conditions may be honoured, including pension entitlements and any outstanding incentive awards and the exercise of any discretion in connection with such payments. Similarly, if an Executive Director is appointed following the Company's acquisition of or merger with another company, legacy terms and conditions would be honoured.

In the event of the appointment of a new Chairman or Non-Executive Director, remuneration arrangements will normally reflect the Policy. The Remuneration Committee's intention is that timely disclosure of the remuneration structure of any new Executive Director or Chairman will be made by the Company wherever practical.

Loss of office

Base pay and benefits – Executive Directors are entitled to a payment in lieu of notice equal to base pay and the value of benefits only for the duration of the remaining notice period, subject to mitigation. The Company has the ability to terminate Executive Directors' employment, in the event of a prolonged mental or physical incapacity to carry out his/her Company duties and without notice (summary dismissal), in the event of gross misconduct or being disqualified to act as a Director. Appropriate medical benefits may still be provided in the case of prolonged mental or physical incapacity.

Other payments – Executive Directors may be entitled to other payments including, but not limited to, costs of appropriate repatriation/relocation, outplacement, settlement agreement, non-compete agreement, legal and/or tax and other relevant professional costs. The Remuneration Committee would look to ensure that the level of these costs/benefits was reasonable and in the best interests of shareholders.

Bonus including Deferred Bonus Plan (DBP)

- ➊ Cash bonus – In the event of retirement, death, disability, redundancy, change of control, sale of the employing company or any other circumstance at the discretion of the Remuneration Committee, Executive Directors may receive a bonus payment for the year in which they cease employment. This payment will normally be pro-rated for time and performance; however, the Remuneration Committee retains the discretion to review overall business and individual performance and determine that a different level of bonus payment is appropriate. Otherwise, generally, Executive Directors must be employed at the date of payment to receive a bonus. In certain circumstances, the Remuneration Committee may determine that a bonus payment may be due to reflect performance and contribution to the point of cessation.
- ➋ DBP – leaving before date of vest – Deferred bonus shares will normally vest in full following completion of the three-year vesting period. Participants will have six months from the date of vest to exercise. The vesting of awards will be accelerated for death and there will be 12 months from death to exercise (or up to 24 months if the Remuneration Committee so determines). The Remuneration Committee has the discretion to allow the vesting of awards so that it vests before the original three-year vesting date.
- ➌ DBP – leaving after date of vest – The Executive Director will generally have six months in which to exercise their awards from the date of leaving (12 months for death (or up to 24 months if the Remuneration Committee so determines)).

Performance Share Plan (PSP)

- ➊ Leaving before the end of the performance period – In the event of retirement, redundancy, change of control, sale of the employing company or any other circumstance at the discretion of the Remuneration Committee, awards will vest on the original vesting date on a time apportioned basis (unless the Remuneration Committee determines otherwise). Performance will be measured at the end of the original performance period. Participants will have six months from the end of the holding period to exercise. In the event of ill health, disability or death (or in the event of any other exceptional circumstance if the Remuneration Committee determines), awards will vest early on a time apportioned basis. Performance will be measured to the early vesting date. Participants will have six months from leaving to exercise (12 months for death (or up to 24 months if the Remuneration Committee so determines)). If participants leave for any other reason before the end of the performance period, their award will lapse on termination.
- ➋ Leaving after the end of the performance period – Any awards in the two-year holding period will vest following completion of the two-year holding period. Participants will have six months from the latest of the end of the holding period or the leaving date to exercise (12 months for death (or up to 24 months if the Remuneration Committee so determines)).

When an Executive Director leaves the business on the basis of mutual agreement, the Remuneration Committee will determine an appropriate payment taking into account the circumstances of leaving but any payment will be no more generous than that for leavers by reason of disability, ill health, retirement, redundancy, death or sale of an individual employing business. There are no provisions for notice periods or compensation in the event of the termination of the appointment of the Chairman or a Non-Executive Director.

Summary of 2018 Directors' Remuneration Policy

continued

The Directors' Remuneration Policy was approved by shareholders at the Company's AGM on 9 May 2018. The full version of the policy, including all notes to the policy table summarised below, is available on our website.

Base salary

Purpose/link to strategy	Operation	Levels of payout	Performance measures and period
To attract and retain executives of the calibre required to implement our strategy.	<p>Cash salaries are normally reviewed annually with effect from 1 January. Salaries are set taking into account:</p> <ul style="list-style-type: none"> market data from both Willis Towers Watson and Deloitte (or other appropriate data providers) for a cross-section of companies of a similar size and complexity at the time of review; scope and responsibilities of the role; external economic environment; individual skills and experience; and contribution to overall business performance. 	<p>Salary policy is to set base salary at an appropriate level taking into account the factors described under the 'Operation' column and salary increases are considered in this context.</p> <p>While there is no maximum salary level, the Remuneration Committee would normally expect percentage pay increases for the Executive Directors to be broadly in line with other colleagues in relevant regions.</p>	<p>The payment of salary is not dependent on achieving performance targets although individual performance is taken into account when setting salary levels and determining any salary increases.</p>

Benefits

Purpose/link to strategy	Operation	Levels of payout	Performance measures and period
To attract and retain executives of the calibre required to implement our strategy.	<p>The main benefits for Executive Directors are:</p> <ul style="list-style-type: none"> life assurance; car or car allowance; family healthcare; permanent health insurance; and relocation benefits. 	<p>Levels of benefits are set in line with market practice. The level of benefits provided varies year-on-year depending on the cost of the provision of benefits to the Company and therefore it is not meaningful to identify a maximum level of benefits.</p>	None.

Pensions

Purpose/link to strategy	Operation	Levels of payout	Performance measures and period
<p>To attract and retain executives of the calibre required to implement our strategy.</p> <p>To facilitate executives' planning for retirement.</p>	<p>Executive Director pension arrangements are by way of a defined contribution arrangement or through a cash alternative of a similar value or a combination of the two.</p>	<p>For any future Executive Director hires the maximum contribution will be 15% of base salary. The contributions for the existing Executive Directors are 25% of salary for the Chief Executive and 15% of salary for the Chief Financial Officer.</p>	None.

Annual bonus

Purpose/link to strategy	Operation	Levels of payout	Performance measures and period
<p>Recognise and reward for stretching business performance against annual financial, strategic, operational and individual goals that contribute to Company performance.</p>	<p>The annual bonus is paid each year after the Remuneration Committee has reviewed performance against targets, which are set around the beginning of each year for each Executive Director, taking into consideration the underlying performance of the business.</p> <p>Normally no more than 60% of any bonus is paid in cash with the balance deferred in shares.</p> <p>Deferred shares vest after a period of three years with no further performance conditions.</p> <p>Malus and clawback provisions exist.</p>	<p>Bonus payouts start to accrue at a level of up to 20% of base salary for meeting threshold levels of performance, with a target bonus opportunity of 75% of base salary and a maximum bonus opportunity of 150% of base salary (before the application of the individual performance modifier).</p> <p>An individual performance modifier may also increase or decrease the opportunity stated above to further recognise individual contribution to business performance.</p> <p>The maximum payout will not exceed 180% of base salary.</p>	<p>The annual bonus is normally linked to a mix of financial elements and other key strategic performance targets including achievement of personal objectives where appropriate. Performance is tested over a one-year performance period.</p> <p>Financial measures will always include a profit measure and may include one or more of cash and revenue.</p> <p>At least 50% of the bonus will be based on financial measures. Financial measures may be linked to Group performance or the executive's specific area of responsibility, if appropriate.</p>

Performance Share Plan (PSP)

Purpose/link to strategy	Operation	Levels of payout	Performance measures and period
<p>To motivate and incentivise delivery of stretching business performance over the long term and to create alignment with growth in value for shareholders.</p> <p>To act as a retention tool for Executive Directors.</p>	<p>Awards are made over shares (normally in the form of nil-cost options or conditional shares) with a face value set by reference to a multiple of base salary.</p> <p>Award levels and performance conditions are set to support the business' long-term goals and seek to reflect market practice and shareholder guidance.</p> <p>Award levels are generally set at a market competitive level, relative to companies of comparable size and complexity.</p> <p>Malus and clawback provisions exist.</p>	<p>Levels of payout</p> <p>The maximum annual award will be 250% of base salary for the Chief Executive and 200% of base salary for the Chief Financial Officer and any other Executive Directors. 25% of the award shall vest for meeting threshold levels of performance.</p> <p>This limit of 250% and 200% of base salary for the Chief Executive and Chief Financial Officer and any other Executive Directors respectively may be increased to 300% of base salary in exceptional circumstances as determined by the Remuneration Committee.</p> <p>Vested PSP awards may include dividend equivalents (in cash or shares) that accrue by reference to the period between grant date and vest or exercise date.</p>	<p>Performance measures and period</p> <p>Awards are normally subject to the following two performance measures weighted two-thirds and one-third respectively:</p> <ul style="list-style-type: none"> ➊ relative total shareholder return (TSR) performance; and ➋ the achievement of earnings per share (EPS) targets. <p>For any particular award, the Remuneration Committee shall retain discretion to adjust the weightings of these two measures or to include additional or alternative performance measure(s) aligned to the corporate strategy.</p> <p>Performance conditions are normally measured over a three-year period. Thereafter, a two-year holding period normally applies. The ownership of the shares is not delivered to the participants until the end of the holding period when the award vests.</p>

Shareholding guidelines

Purpose/link to strategy	Operation	Levels of payout	Performance measures and period
<p>Encourages greater levels of shareholding and aligns employees' interests with those of shareholders.</p>	<p>Executive Directors are expected to achieve and maintain a holding of the Company's shares at least equal to a significant proportion of their respective salary.</p>	<p>Chief Executive: 300% of salary.</p> <p>Chief Financial Officer and other Executive Directors: 200% of salary (within five years of appointment).</p>	N/A

Measures and targets

All the performance measures selected support the delivery of short and long-term financial performance of the business and shareholder value creation. Targets are set each year based on stretching internal budgets and achieving or exceeding these targets will both return value to shareholders and reward the executive team for delivery.

The annual bonus measures are reviewed annually to focus on delivery of key financial targets for the forthcoming year as well as key strategic or operational goals relevant to the individual.

Over the long term, performance measures are focused on generating returns to shareholders through the relative TSR measure and through a focus on improving earnings.

Malus and clawback

The Remuneration Committee may reduce bonus payments in respect of the current year or future years and have the ability to scale back awards that have not yet vested under the Company's Performance Share Plan (potentially to nil) in the event of:

- ➊ a material misstatement of the Company's audited results for the current year or prior years;
- ➋ serious reputational damage or loss to the Group as a result of an individual's serious misconduct; or
- ➌ in other circumstances where the Remuneration Committee, in its discretion, considers that this treatment is appropriate.

For bonus, a clawback provision exists to give the Remuneration Committee, in the same circumstances to malus, the ability to recover sums already paid for up to two years after bonus determination, or vesting date for deferred shares. Deferred shares may be adjusted in accordance with the rules in the event of a variation of the Company's share capital, demerger, special dividend or similar event that materially affects the price of shares.

For PSP, a clawback provision exists to give the Remuneration Committee, in the same circumstances as malus, the ability to recover sums already paid for up to five years from the grant date.

Independent Auditor's Report to the members of Rentokil Initial plc

1. Our opinion is unmodified

We have audited the Financial Statements of Rentokil Initial plc (the Company) together with its subsidiaries (the Group) for the year ended 31 December 2019 which comprise the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, Company Balance Sheet and Company Statement of Changes in Equity, and the related notes, including the accounting policies in the General Accounting Policies.

In our opinion:

- ➊ The Financial Statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended.
- ➋ The Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union.
- ➌ The Parent Company Financial Statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework.
- ➍ The Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the shareholders in August 2009. The period of total uninterrupted engagement is for the 11 financial years ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the Financial Statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the Financial Statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Overview

Materiality:
Group Financial Statements as a whole £12m (2018: £11m)
4.7% (2018: 4.8%) of Group normalised profit before tax

Coverage 76% (2018: 85%) of Group profit before tax

Key audit matters vs 2018

Recurring risks		
Impairment assessment and testing of cash-generating units that include goodwill		⬆
Provision of tax risks		⬇
Parent Company specific risk	Recoverability of investments in subsidiary undertakings and inter-company receivables	⬇

More information

- ➊ Audit Committee Report on pages 81 to 87
- ➋ Financial Statements from page 122

[frc.org.uk/auditorsresponsibilities](https://www.frc.org.uk/auditorsresponsibilities)

	The risk	Our response
<p>Impairment assessment and testing of cash-generating units that include goodwill</p> <p>£1,359.9m (2018: £1,156.8m)</p> <p>Read more: Audit Committee Report on pages 81 to 87 Accounting policy on pages 145 to 147 Financial disclosures on pages 145 to 147</p>	<p>Forecast-based valuation</p> <p>The Group has a significant carrying amount of goodwill which is spread across a range of cash-generating units (CGUs) in different countries. This is related to numerous past and recent acquisitions, spread across the Group's geography. The majority of the acquisitions are small and are integrated into the existing CGUs.</p> <p>A value-in-use model is used for impairment testing for each CGU. The estimation of the value in use of the CGUs requires significant judgement due to the inherent uncertainty involved with forecasting and discounting future cash flows particularly in relation to discount rates, long-term growth rates, and forecast cash flows. Changes to the assumptions applied to the model, for example a change in the discount rate or to forecast cash flows, have the potential to significantly affect the impairment testing results.</p> <p>Some markets are more sensitive to changes in input than others, and could be negatively impacted by market events. We have found that the Indian market has experienced a lower than expected growth rate which could impact the carrying amount of goodwill allocated to PCI. Similarly, the subdued UK property market could impact the carrying amount of goodwill allocated to the Peter Cox CGU.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the value in use of CGUs has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the Financial Statements as a whole.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> ➊ review of impairment models: evaluating the principles and integrity of the Group's discounted cash flow models and assumptions used, in particular those relating to forecast revenue growth and profit margins; ➋ historical comparisons: evaluating historical forecasting accuracy of key inputs including revenue growth and profit margins; ➌ benchmarking assumptions: comparing the Group's assumptions to externally derived data in relation to key inputs such as long-term growth rates and discount rate assumptions; ➍ sensitivity analysis: performing sensitivity analysis over the key assumptions noted above to identify which assumptions have the most significant effect on the headroom available; ➎ re-performance: we used our corporate finance specialists to recalculate and challenge the discount rates used by the Group in their impairment model, this is done using external and internal data; ➏ test of details: identifying specific CGUs with possible risks of impairment based on historical forecast accuracy, sensitivity to changes in key assumptions and market conditions where the businesses operate and specifically challenging the Group's valuations for these CGUs; and ➐ assessing transparency: considering whether the Group's disclosures of the effect of changes in key assumptions on the valuation of goodwill are appropriate. <p>Our results</p> <p>We found the resulting estimate of the recoverable amount of the CGUs which contain goodwill to be acceptable (2018 result: acceptable).</p>
<p>Provision for tax risks</p> <p>£63.4m (2018: £59.7m)</p> <p>Read more: Audit Committee Report on pages 81 to 87 Accounting policy on pages 141 to 142 Financial disclosures on pages 141 to 142</p>	<p>Subjective estimate</p> <p>The Group holds a number of provisions for tax risks which arise in the normal course of business. The single largest provision relates to a financing structure which has been challenged by tax authorities. The Group operates in a number of tax jurisdictions causing complexities in transfer pricing and other international tax legislation issues. In addition, tax matters usually take a significant length of time to be agreed with the tax authorities and, as such, the recognition of these tax provisions requires judgements and estimates to be made in respect of the likely outcomes of the tax authority investigations.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that provisions for tax risks have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the Financial Statements as a whole.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> ➊ our tax expertise: using our international and local tax team's knowledge and experience to assess the Group's tax position, its correspondence with relevant tax authorities, and to analyse and challenge the assumptions used to determine tax provisions based on our knowledge and experience of application of international and local legislation by the relevant authorities and courts; and ➋ assessing transparency: assessing the adequacy of Group's disclosures in respect of tax liabilities and uncertain tax provisions. <p>Our results</p> <p>We found the level of tax provisioning and level of disclosures to be acceptable (2018 result: acceptable).</p>
<p>Parent Company financial statements</p> <p>Recoverability of investments in subsidiary undertakings and inter-company receivables</p> <p>Investments £280.3m (2018: £277.6m) Inter-company receivables £2,509.8m (2018: £2,509.8m)</p>	<p>Low risk, high value</p> <p>The carrying amount of the Company's investments in subsidiaries and inter-company receivables represent 91% of the Company's total assets.</p> <p>We do not consider the recoverability of these investments and inter-company receivables to be a high risk of significant misstatement, or to be subject to a high level of judgement. However, due to their materiality in the context of the Company Financial Statements as a whole, this is considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our Company audit.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> ➊ test of detail: comparing a sample of the investment carrying values and inter-company receivables to net assets of the relevant subsidiary to identify whether the net assets of the subsidiaries, being an approximation of their minimum recoverable amount, were in excess of the carrying amount. <p>Our results</p> <p>We found the carrying value of investments and the recoverability of intercompany receivables to be acceptable (2018 result: acceptable).</p>

We continue to perform procedures over recognition and measurement of UK deferred tax assets on unused tax losses. However, due to improvement in forecast of UK taxable profits, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

Independent Auditor's Report

continued

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group Financial Statements as a whole was set at £12m (2018: £11m) determined with reference to a benchmark of Group profit before tax, normalised to exclude profits on the sale of Hanier and losses on disposal of PCI, MPCL and Cannon as disclosed in Note B6, of £251.3m (2018: Group loss before tax, normalised to exclude pension settlement costs, of £227.5m), of which it represents 4.7% (2018: 4.8%). Materiality for the Parent Company Financial Statements as a whole was set at £2m (2018: £8.2m), determined with reference to a benchmark of total assets, of which it represents 0.1% (2018: 0.3%) of total assets.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.35m (2018: £0.3m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

The audit work was performed by 15 audit teams in 14 different countries covering 94 (2018: 96) reporting components. We subjected 58 (2018: 60) reporting components to full scope audits for Group purposes and 36 (2018: 36) reporting components to specified audit risk-focused audit procedures.

The reporting components within the scope of our work accounted for the percentages illustrated opposite.

The remaining reporting components not in scope for Group audit purposes (26% of total Group revenue, 24% of Group loss/profit before tax and 24% of total Group assets) were individually insignificant reporting components, none of which individually represented more than 4% of any of total Group revenue, Group loss/profit before tax or total Group assets. We performed analysis at a Group level to re-examine our assessment that there were no significant risks of material misstatement within these remaining components.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £0.2m to £7.0m (2018: £0.1m to £5.5m), having regard to the mix of size and risk profile of the Group across the components. The work on 58 of the 94 components (2018: 66 of the 96 components) was performed by component auditors and the rest, including the audit of the Parent Company, was performed by the Group team.

Video and telephone conference meetings were held with these component auditors and all others that were not physically visited. The Group team also did physical visits to the US, UK and France during the year. At these visits and meetings, the findings reported to the Group team were discussed in more detail. The Group audit team performed audit file reviews of all component auditors and any further work required by the Group team was then performed by the component auditors.

4. We have nothing to report on going concern

The Directors have prepared the Financial Statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the Financial Statements (the going concern period).

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- ➊ potential slowdown in the economies of some regions due to changes in the economic cycle;
- ➋ integration risk in relation to acquisitions to the existing business; and
- ➌ the increased risk of rising interest rates impacting future debt cost.

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if:

- ➊ we have anything material to add or draw attention to in relation to the Directors' statement in the General accounting policies Note to the Financial Statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least 12 months from the date of approval of the Financial Statements; or
- ➋ the related statement under the Listing Rules set out on page 181 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the Financial Statements. Our opinion on the Financial Statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our Financial Statements audit work, the information therein is materially misstated or inconsistent with the Financial Statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- ➊ we have not identified material misstatements in the Strategic Report and the Directors' Report;
- ➋ in our opinion the information given in those reports for the financial year is consistent with the Financial Statements; and
- ➌ in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' Remuneration Report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

Based on the knowledge we acquired during our Financial Statements audit, we have nothing material to add or draw attention to in relation to:

- ➊ the Directors' confirmation within the Directors' viability statement on page 60 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- ➋ the Principal risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- ➌ the Directors' explanation in the Directors' viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Directors' viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- ➊ we have identified material inconsistencies between the knowledge we acquired during our Financial Statements audit and the Directors' statement that they consider that the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- ➋ the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

Independent Auditor's Report continued

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- ❶ adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- ❷ the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- ❸ certain disclosures of Directors' remuneration specified by law are not made; or
- ❹ we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 181, the directors are responsible for: the preparation of the Financial Statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements.

A fuller description of our responsibilities is provided on the FRC's website at frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the Financial Statements from our general commercial and sector experience, and through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at Group level.

The potential effect of these laws and regulations on the Financial Statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the Financial Statements, including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related Financial Statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the Financial Statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, environmental law and certain aspects of company legislation recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the Financial Statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the Financial Statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Michael Maloney (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL

26 February 2020

Financial Statements

118	Financial Review
122	Consolidated Statement of Profit or Loss and Other Comprehensive Income
123	Consolidated Balance Sheet
124	Consolidated Statement of Changes in Equity
125	Consolidated Cash Flow Statement
126	Notes to the Financial Statements
165	Related Undertakings
171	Five-Year Summary
172	Parent Company Balance Sheet
173	Parent Company Statement of Changes in Equity
174	Notes to the Parent Company Accounts

Financial Review



During the year we acquired 30 pest control businesses, eight hygiene businesses and three Ambius operations, generating annualised revenues in the year prior to purchase of £137m.

Jeremy Townsend
Chief Financial Officer

Revenue

Ongoing Revenue, which excludes disposed businesses, increased by 8.6% in 2019, with all regions contributing to growth. Organic Revenue growth of 4.5% was our highest level of annual growth in 15 years and in excess of our medium-term financial target of 3% to 4% growth p.a. Organic growth in H2 was 4.8%, with 4.1% in Q4 versus 4.7% in Q4 2018. Acquisitions performed well during the period, contributing 4.1% to Ongoing Revenue growth.

Ongoing Revenue in Pest Control grew by 10.8% during the year (4.9% Organic) with good performances being delivered across both Growth and Emerging markets, which rose by 10.5% and 12.7% respectively. Hygiene reported increased revenues of 5.8%, up 4.3% on an Organic basis, aided by strong performances from our Pacific, UK and Europe operations and ongoing good contributions from the Cannon and CWS transactions. Ongoing Revenue in our Protect & Enhance businesses increased by 3.5% (3.2% Organic), reflecting improved performances in France Workwear, Ambius and UK Property Care.

Total Revenue of £2,682.8m rose by 8.5% at constant exchange rates (CER) and by 9.8% at actual exchange rates (AER), reflecting growth across all main regions and business categories.

Profit

Ongoing Operating Profit, which excludes the results of disposed businesses, increased by 10.5% in the year to £365.5m, again reflecting growth across all five regions. This resulted in an increase in Net Operating Margins to 13.8% – driven by improvement in a number of key regions and in particular our North American business; but held back slightly by an increase in central costs of £7m, reflecting the impact of the increase in our share price on long-term incentive plans (LTIP) costs. Ongoing Operating Profit benefited by c.£3.5m from the implementation of IFRS 16 which was adopted from 1 January 2019. Restructuring costs amounted to £7.5m at CER (2018: £7.2m) consisting mainly of costs in respect of initiatives focused on driving operational efficiency across all regions.

Adjusted profit before tax at AER of £340.9m, which excludes the impact of one-off items, increased by 10.7%, reflecting growth in all operating regions. Adjusted interest costs were £3.6m lower than last year despite the adverse impact of £3.5m from the implementation of IFRS 16.

One-off items at AER net to a charge of £14.6m, which includes £25.2m of acquisition integration costs, a gain of £17.4m in respect of the UK Defined Benefit Pension Scheme buy-out process and a non-cash adjustment of £7m to the holding value of the Cannon UK and MPCL acquisitions. Intangible asset amortisation at AER of £85.2m increased by £23.6m as a result of the M&A programme, resulting in profit before tax at actual exchange rates of £338.5m.

Cash (at AER)

Free Cash Flow increased by £58.7m to £250.7m, delivering Free Cash Flow conversion of 98.6% for the year. The increase was principally driven by a £36.1m increase in Adjusted Operating Profit and an increase in dividends received from the now disposed CWS-boco International GmbH of £18.0m. Post the implementation of IFRS 16 from the start of 2019, depreciation and capital expenditure have both increased but they offset and the net impact was broadly cash neutral.

Cash spent on current and prior year acquisitions totalled £316.5m, offset by proceeds from disposals of £391.9m. Combined with dividend payments of £85.8m – an £11.6m, 15.6% increase on the prior year – this resulted in an underlying decrease in net debt of £240.3m. The adoption of IFRS 16, which added £184.0m of lease obligations to net debt at 1 January 2019, together with foreign exchange translation and other items, led to an overall decrease in net debt of £80.5m and closing net debt of £1,073.0m.

Ongoing Revenue growth¹
5%–8%, 3%–4% Organic (CER)

Ongoing Operating Profit growth¹
c.10% (CER)

Strong and sustainable delivery of
Free Cash Flow, c.90% conversion² (AER)

+8.6% growth in Ongoing Revenue,
+4.5% Organic

+10.5% growth in Ongoing Operating Profit

Free Cash Flow of £250.7m, 98.6% cash
conversion over last 12 months

1. Ongoing Revenue and Ongoing Operating Profit exclude the results of disposed businesses. Ongoing Operating Profit and Adjusted Profit Before Tax Amortisation exclude certain items that could distort the underlying trading performance. Charts calculated on a 12-month trailing basis.
2. Adjusted cash flow conversion on a trailing 12-month basis.

M&A

2019 was another excellent year for M&A, with 41 acquisitions in 23 countries and the divestment in July of our 17.8% stake in the joint venture (JV) with Franz Haniel & Cie. GmbH (Haniel). During the year we acquired 30 pest control businesses, eight hygiene businesses and three Ambius operations, generating annualised revenues in the year prior to purchase of £137m. Total spend, including prior year acquisitions, was £316.5m. Countries in which we have acquired new businesses include Australia, Brazil, Canada, Chile, Colombia, Costa Rica, Dominican Republic, Dutch Antilles, Finland, France, Greece, Indonesia, Malaysia, Poland, Spain, Tanzania, Thailand, UK and US. We also entered new markets of Jordan, Sri Lanka and Uruguay.

In July 2017 the Group's Workwear and Hygiene assets principally in Germany and Benelux were transferred into a JV with Haniel for a cash consideration of €520m and a retained 17.8% share in the JV. On 30 July 2019 we agreed to sell our remaining stake in the JV to Haniel for a cash consideration of €430m. There is no tax on disposal. Together with the initial consideration for transferring the businesses into the JV of €520m and dividends received since its formation of c.€29m, the transaction has realised a total cash return of €979m. The proceeds from the sale have been used to reduce debt and support the Group's M&A programme.

Our recent acquisitions continue to perform at or above our required hurdle rates. Going forward we will continue to

execute a differentiated and disciplined approach to capital investment and M&A, with clear IRR hurdles by business line. We will continue to seek further acquisition opportunities for 2020 and the pipeline of prospects remains strong. We have made a good start to 2020 and, given the continued strength of our pipeline, our anticipated spend on M&A in 2020 is expected to be in the region of c.£250m.

Regional performance

In North America Ongoing Revenue grew by 11.4% to £1,040.3m (\$1,385.8m), of which 6.9% was growth through acquisition and 4.5% was Organic (in line with our Organic growth target of 4% to 5% p.a.). Pest Control grew 11.9% (+4.4% Organic), improving on the 3.8% Organic growth in 2018, but performance for the year was held back by unusually wet weather conditions in certain parts of the country in the second quarter. Ongoing Operating Profit growth of 15.3% reflects the combined impact from higher revenues and acquisitions. 14 pest control and two Ambius businesses were acquired in the region in 2019 – including Florida Pest Control, a top 20 pest control company in the US, – with combined annualised revenues of c.£135m (c.£101m) in the year prior to purchase, considerably ahead of c.£53m (c.£41m) revenues acquired during 2018.

Our stated ambition for our North America business is for it to become a \$1.5bn revenue business by the end of 2020 and to deliver 18% Net Operating Margin by the end of 2021. This year has seen very good progress towards our revenue target as noted above and, given our progress in Organic growth and

acquisitions in 2019, we remain confident in achieving our \$1.5bn revenue target in 2020.

We are making good progress towards our target of 18% Net Operating Margin in North America by the end of 2021. Net Operating Margin improved by 50 basis points in 2019 to 14.2%, supported by stronger Organic Revenue growth, synergies from acquisitions beginning to flow through and savings in property and procurement from our Best of Breed cost savings programme, partially offset by a greater mix of lower margin product sales.

As we have previously discussed, in addition to operational leverage from increased density, a key dependency for delivery of this margin target is the re-platforming of our IT infrastructure. The key first step in our IT programme is creating a consistent platform across the country. We transferred all of our data from the business into the cloud in 2019 and the large majority of the business is now on a standard operating system. We also migrated 16 acquisitions onto our core operating system in 2019. Having data in one place and a consistent infrastructure delivers cost benefits in its own right through reduced back office costs and more effective management. The re-platforming also critically allows us to deploy our Group applications across the North America region in the key areas of service, sales and customer communications over the next 12 to 18 months. The implementation of these applications enables the delivery of Best of Breed margin benefits in 2020 and 2021 meaning that our journey to 18% margin by 2021 is weighted towards the end of this period.

Financial Review

continued

Ongoing Revenue for **Europe** rose by 7.1% (+4.8% Organic), reflecting an excellent performance in Germany (+12.6%), continued strong growth in southern Europe (+4.6%) and an improved performance in Benelux and France, which grew by 6.2% and 4.6% respectively. Latin America, which is reported within the Europe region, once again performed well with Ongoing Revenue growth of 20.5%. Ongoing Revenue from our European Hygiene operations grew by 5.2% (3.2% Organic), benefiting from strong performances across the region. Ongoing Revenue from our Pest Control businesses grew by 11.3%, reflecting a 4.6% uplift in growth from acquisitions and strong Organic growth of 6.7%, attributable to a particularly strong performance from our German operations. Ongoing Operating Profit for the Europe region grew by 8.3%, with strong growth in southern Europe, Germany and Benelux. Net Operating Margins for the Europe region increased by 20 basis points to 19.3%. The region acquired 11 businesses in Europe and Latin America in the period (three in Hygiene and eight in Pest Control) with total combined annualised revenues of c.£13m in the year prior to purchase.

The **UK & Rest of World** region delivered a very strong performance, with an overall increase in Ongoing Revenue of 6.3%, comprising acquisition growth of 1.5% and Organic Revenue growth of 4.8%. The region delivered continued excellent growth from UK Pest Control and Hygiene, which grew organically by 6.3% and 7.9% respectively, with Pest Control benefiting from large contract wins, high levels of customer service, improved customer retention and one-off contracts. The Rest of World operations delivered good Ongoing Revenue growth of 7.0% with contributions across all of its regional clusters in the Nordics, Caribbean, Sub-Saharan Africa and MENAT. Overall Ongoing Operating Profit for the region grew by 9.3%, reflecting the higher revenues. Net Operating Margins for the UK & Rest of World region were 0.6% points higher at 22.0%, reflecting profit improvements in UK Property Care. During the year the region acquired three hygiene, two pest control and one Ambius business with total acquired annualised revenues in the 12 months prior to acquisition of c.£3m.

The **Asia region** has once again performed well in 2019 with Ongoing Revenue increasing by 11.1% (+4.7% Organic Revenue growth) with both Pest Control and Hygiene trading well. Our operations in Indonesia delivered an outstanding performance, with Ongoing Revenue growth of 40.3% (Pest Control: 58.2%, Hygiene: 19.7%) and Organic Revenue growth of 14.1% (Pest Control: 20.1%, Hygiene 7.2%). Acquisitions contributed 26.2% of growth. Ongoing Operating Profit

in Asia grew by 11.1%. Progress on the integration of Pest Control Private Limited (PCI), our 2017 acquisition in India, has been steady although the leverage on the combined business has been lower than we would have expected at this stage. We are confident that a strong platform for growth has now been established for 2020 and beyond. Asia Net Operating Margins were in line with prior year at 10.3%, held back by margins in Singapore which were adversely impacted by wage inflation, a slowdown in jobbing work and key accounts negotiations. Four pest control businesses and two hygiene businesses were acquired in 2019 in Indonesia, Malaysia, Sri Lanka and Thailand, with combined annualised revenues of c.£17m.

In the **Pacific region** Ongoing Revenue grew by 2.6%, (+2.3% Organic), driven by solid performances across our core Pest Control and Hygiene categories. Our Hygiene operations in Australia delivered a notably good performance in the period, reflecting the impact of new customer wins in 2018 and 2019. However, Pest Control was impacted by a decline in fumigation activity – in part due to a change in fumigation regulations which now means that inbound shipments are increasingly being treated at the point of their departure instead of on arrival into the region – along with a consolidation of operating centres. Ongoing Operating Profit in the region grew by 2.5% and Net Operating Margins declined by 0.1% points reflecting fumigation impacts. Two small pest control businesses were acquired in Australia with annualised revenues of c.£2m in the year prior to acquisition.

Our share of **Profits from Associates** at AER amounted to £15.2m (2018: £19.6m), £7.0m (2018: £12.1m) relating to our JV with Haniel and £8.2m (2018: £7.5m) to our Japanese associate. Following the disposal of our remaining stake in the JV with Haniel in July 2019 there will be no further profit contributions from this business. For the 12 months ended 31 December 2019 the JV with Haniel contributed £9.4m (2018: £16.9m) of Adjusted Profit and £7.0m (£12.1m) after integration costs, goodwill amortisation and tax.

Central and regional overheads

Central and regional overheads of £78.4m at CER were £7.0m higher than prior year (2018: £71.4m) reflecting continued investment to support the Group's innovation and digital programme and the impact of increased LTIP costs given the improvement in the Company's share price.

Restructuring costs

With the exception of integration costs for significant acquisitions, the Company reports restructuring costs within operating profit. Costs associated with significant acquisitions are reported as one-off items and excluded from operating profit.

Restructuring costs of £7.5m at CER (2018: £7.2m) consisted mainly of costs in respect of initiatives focused on driving operational efficiency in all regions.

One-off items (at AER)

One-off items of £14.6m at AER include £25.2m of acquisition and integration costs, a gain of £17.4m in respect of the UK Defined Benefit Pension Scheme buy-out process and a non-cash adjustment of £7m to the holding value of the Cannon UK and MPCL acquisitions.

UK Defined Benefit Pension Scheme buy-out

In December 2018 the Company reached agreement for a bulk annuity insurance buy-in for its UK Defined Benefit Pension Scheme ('the Scheme') with Pensions Insurance Corporation. The buy-in has been secured in contemplation of a full buy-out and winding up of the Scheme which is expected to complete in 2020. Good progress towards buy-out is being made and we now anticipate a pre-tax cash surplus of £36m to be returned to the Company on completion in 2020. During the year adjustments of £17.4m were made to provisional amounts included in the original price and this has been recorded as a gain within one-off items.

Interest (at AER)

Adjusted interest of £42.1m was £3.6m lower than in the prior year, including £3.5m from the adoption of IFRS 16. The adoption of IFRS 16 at the start of the year has increased the reported interest charge by c.£6.5m. This is a non-cash change and is in excess of the operating profit benefit from IFRS 16 of c.£3.5m. The difference of c.£3.0m has therefore been added back when arriving at the Group's adjusted interest charge to aid year-on-year comparability.

Tax

The income tax charge for the year at AER was £54.7m on the reported profit before tax of £338.5m. After adjusting the reported profit before tax for the amortisation and impairment of intangible assets (excluding computer software), one-off items and the profit on the disposal of the Haniel JV, the Adjusted Effective Tax Rate (ETR) for 2019 at AER was 21.6% (2018: 21.8%). This compares with a blended rate of tax for the countries in which the Group operates of 23% (2018: 22%).

For more information on our tax strategy, see page 53.

Net debt and cash flow

Operating cash inflow (£343.1m at AER for continuing operations) was £59.6m higher than in 2018 principally driven by a £36.1m increase in Adjusted Operating Profit and an increase in dividends received from the now disposed 17.8% interest in CWS-boco International GmbH of £18.0m. Depreciation and capital expenditure have both increased due to the implementation of IFRS 16 from the start of the year but they offset and the net impact was broadly cash neutral.

Interest payments of £48.1m are £2.8m higher than in the prior year and tax payments decreased by £1.9m, both reflecting the phasing of payments versus the prior year. This resulted in Free Cash Flow from continuing operations of £250.7m, an increase of £58.7m on the prior year, delivering an adjusted Free Cash Flow conversion of 98.6% for the last 12 months.

Funding

In May 2019 the Group issued a €500m bond maturing on 30 May 2026 with a coupon of 0.875%. The proceeds were used to refinance the €500m bond that matured on 24 September 2019. In August the Group's revolving credit facility (RCF) was extended to 2024 using one of the two one-year extension options. Following the successful refinancing of the September 2019 bond, the Group reduced the commitment under its RCF by £50m to £550m.

As at 31 December the Group had £737m of centrally held funds and available undrawn committed facilities. The ratio of net debt to EBITDA at 31 December was 1.8x, including the estimated full-year impact of IFRS 16 (1.7x excluding IFRS 16).

We remain committed to maintaining a BBB credit rating and, based on our expectations for 2020, we are confident in doing so.

Going concern

The Directors continue to adopt the going concern basis in preparing the accounts on the basis that the Group's strong liquidity position and ability to reduce capital expenditure or expenditure on bolt-on acquisitions are sufficient to meet the Group's forecast funding needs, including those modelled in a downside case.

Dividend policy

The Group adopts a progressive dividend policy with dividend payments related to the level of Free Cash Flow available. The Group aims to pay dividends twice a year and the level of each dividend is decided by the Board. When determining the level of dividend each year, the Board considers the following:

- ➊ cash generation in the year and forecast future cash generation;
- ➋ cash availability at the point of dividend distribution; and
- ➌ cash required to invest in capital expenditure and acquisitions.

Following an encouraging performance in 2019, the Board is recommending a final dividend in respect of 2019 of 3.64p per share, payable to shareholders on the register at the close of business on 14 April 2020, to be paid on 20 May 2020. This equates to a full-year dividend of 5.15p per share, an increase of 15.2% compared with 2018.

To read more information about dividends for shareholders, see page 183.

Coronavirus

Following the outbreak of the coronavirus (COVID-19) our priority has been the health and safety of our colleagues, and we are taking all possible actions to support them. To date, the main impact of the virus has been on our operations in China. In other parts of the Group customer enquiries for hand-washing and hand-sanitising services are strong. At this point in time we would expect only a small net impact on the business in Q1. We are monitoring the situation very closely, looking to mitigate the risk of the impact that the virus may have on our colleagues, customers and supply chain. The majority of products sourced from suppliers in China are covered by existing stocks for the next few months. Should the situation continue for an extended period or become materially worse, this could obviously have a more negative impact during the rest of the year.

Brexit

We are a global business with c.90% of revenues derived from outside the UK and with minimal cross-border trading. The global economic environment, and in particular the Brexit arrangements, continues to drive uncertainty with high levels of volatility in exchange and commodity markets and with international trading arrangements potentially subject to significant change. We continue to monitor the potential implications of geopolitical change on our trading and financing environment and in relation to Brexit we have taken measures to ensure we have access to adequate stock and equipment in both the UK and Europe in 2020. We remain of the view that the defensive nature of our core categories, combined with the geographic location and spread of our operations, place us in a relatively strong position to mitigate such risks going forward and to take advantage of any potential opportunities that the changes may bring.



Jeremy Townsend
Chief Financial Officer

26 February 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December

	Notes	2019 £m	2018 ¹ £m
Revenue	A1	2,714.4	2,472.3
Operating profit	A1	265.6	245.5
Net gain on disposals	A1	103.8	–
Pension settlement ²		–	(341.6)
Profit/(loss) before interest and income tax		369.4	(96.1)
Finance income	C8	10.7	17.6
Finance cost	C7	(56.8)	(55.2)
Share of profit from associates, net of tax of £7.0m (2018: £8.9m)	B6	15.2	19.6
Profit/(loss) before income tax		338.5	(114.1)
Income tax (expense)/credit ³	A12	(54.7)	15.8
Profit/(loss) for the year attributable to the Company's equity holders (including profit from non-controlling interests of £0.3m (2018: £0.2m))		283.8	(98.3)
Other comprehensive income:			
Items that are not reclassified subsequently to the income statement:			
Remeasurement of net defined benefit asset	A10	(5.9)	30.1
Tax related to items taken to other comprehensive income	A14	0.1	(10.2)
Items that may be reclassified subsequently to the income statement:			
Net exchange adjustments offset in reserves		(38.9)	14.9
Cumulative exchange recycled to income statement on disposal of foreign operations		(4.1)	–
Other items		(0.5)	9.5
Total comprehensive income for the year (including profit from non-controlling interests of £0.3m (2018: £0.2m))		234.5	(54.0)
Earnings per share attributable to the Company's equity holders:			
Basic	A2	15.33p	(5.35)p
Diluted	A2	15.24p	(5.35)p

All profit is from continuing operations.

Non-GAAP measures shown below are explained in further detail in Section E: Alternative Performance Measures.

Non-GAAP measures			
Operating profit		265.6	245.5
Adjusted for:			
Amortisation and impairment of intangible assets (excluding computer software)	A1	85.2	61.6
One-off items – operating	A1	14.6	22.2
Adjusted operating profit		365.4	329.3
Finance income	C8	10.7	17.6
Net interest adjustments		4.0	(8.1)
Finance cost	C7	(56.8)	(55.2)
Share of profit from associates, net of tax of £7.0m (2018: £8.9m)	B6	15.2	19.6
One-off items – associates		2.4	4.8
Adjusted profit before income tax		340.9	308.0
Basic adjusted earnings per share attributable to the Company's equity holders	A2	14.43p	13.07p
Diluted adjusted earnings per share attributable to the Company's equity holders	A2	14.34p	12.97p

1. The Group has applied IFRS 16 at 1 January 2019. Under the transition method chosen comparative information is not restated.

2. Pension settlement consists of £nil (2018: £36.1m) of past service costs and £17.4m (2018: £305.5m) of settlement costs. These settlement costs have been recognised in one-off costs in 2019 – see note A1.

3. Taxation includes £48.1m (2018: £35.3m) in respect of overseas taxation.

Consolidated Balance Sheet

At 31 December

	Notes	2019 £m	2018 ^{1,2} £m
Assets			
Non-current assets			
Intangible assets	B2	1,673.4	1,509.1
Property, plant and equipment	B3	391.7	436.9
Right-of-use assets	B4	221.2	–
Investments in associated undertakings	B6	29.7	291.7
Other investments	C4	0.3	0.2
Deferred tax assets	A14	29.3	3.5
Contract costs	A1	65.4	60.9
Retirement benefit assets	A10	37.4	21.5
Other receivables	A3	12.7	10.8
Derivative financial instruments	C5	7.6	5.4
		2,468.7	2,340.0
Current assets			
Other investments	C4	1.7	2.5
Inventories	A4	106.5	103.2
Trade and other receivables	A3	500.7	485.7
Current tax assets		7.0	16.1
Derivative financial instruments	C5	0.2	4.2
Cash and cash equivalents	C3	309.6	129.8
		925.7	741.5
Liabilities			
Current liabilities			
Trade and other payables	A5	(660.7)	(607.9)
Current tax liabilities		(72.9)	(70.7)
Provisions for liabilities and charges	A6	(25.1)	(28.7)
Bank and other short-term borrowings ²	C2	(84.6)	(507.1)
Lease liabilities ²	B4	(72.0)	(14.4)
Derivative financial instruments	C5	(0.5)	(15.8)
		(915.8)	(1,244.6)
Net current assets/(liabilities)		9.9	(503.1)
Non-current liabilities			
Other payables	A5	(57.7)	(79.1)
Bank and other long-term borrowings ²	C2	(1,059.3)	(716.8)
Lease liabilities ²	B4	(144.7)	(27.3)
Deferred tax liabilities	A14	(110.8)	(96.0)
Retirement benefit obligations	A10	(37.5)	(26.2)
Provisions for liabilities and charges	A6	(34.0)	(42.5)
Derivative financial instruments	C5	(32.3)	(16.4)
		(1,476.3)	(1,004.3)
Net assets		1,002.3	832.6
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital	D2	18.5	18.4
Share premium		6.8	6.8
Other reserves		(1,867.7)	(1,824.2)
Retained earnings		2,844.1	2,631.2
		1,001.7	832.2
Non-controlling interests		0.6	0.4
Total equity		1,002.3	832.6


1. The Group has applied IFRS 16 at 1 January 2019. Under the transition method chosen comparative information is not restated.

2. Bank and other short/long-term borrowings have been restated at 31 December 2018 to reflect the short-term nature of the September 2019 €500m bond which was classified as long-term, as well as separating out current and non-current lease commitments onto separate lines.

The Financial Statements on pages 122 to 171 were approved by the Board of Directors on 26 February 2020 and were signed on its behalf by:



Andy Ransom
Chief Executive



Jeremy Townsend
Chief Financial Officer

Consolidated Statement of Changes in Equity

For the year ended 31 December

	Attributable to equity holders of the Company				Non-controlling interests £m	Total equity £m
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m		
At 1 January 2018	18.4	6.8	(1,848.6)	2,786.1	0.3	963.0
Profit for the year	—	—	—	(98.5)	0.2	(98.3)
Other comprehensive income:						
Net exchange adjustments offset in reserves	—	—	14.9	—	—	14.9
Remeasurement of net defined benefit asset/liability	—	—	—	30.1	—	30.1
Effective portion of changes in fair value of cash flow hedge	—	—	9.5	—	—	9.5
Tax related to items taken directly to other comprehensive income	—	—	—	(10.2)	—	(10.2)
Total comprehensive income for the year	—	—	24.4	(78.6)	0.2	(54.0)
Transactions with owners:						
Dividends paid to equity shareholders	—	—	—	(74.2)	—	(74.2)
Dividends paid to non-controlling interests	—	—	—	—	(0.1)	(0.1)
Cost of share options and long-term incentive plans	—	—	—	5.7	—	5.7
Movement in the carrying value of put options	—	—	—	(7.8)	—	(7.8)
At 31 December 2018	18.4	6.8	(1,824.2)	2,631.2	0.4	832.6
Profit for the year	—	—	—	283.5	0.3	283.8
Other comprehensive income:						
Net exchange adjustments offset in reserves	—	—	(38.9)	—	—	(38.9)
Remeasurement of net defined benefit asset/liability	—	—	—	(5.9)	—	(5.9)
Effective portion of changes in fair value of cash flow hedge	—	—	(0.5)	—	—	(0.5)
Cumulative exchange recycled to income statement on disposal of foreign operations	—	—	(4.1)	—	—	(4.1)
Tax related to items taken directly to other comprehensive income	—	—	—	0.1	—	0.1
Total comprehensive income for the year	—	—	(43.5)	277.7	0.3	234.5
Transactions with owners:						
Shares issued in the year	0.1	—	—	(0.1)	—	—
Dividends paid to equity shareholders	—	—	—	(85.8)	—	(85.8)
Dividends paid to non-controlling interests	—	—	—	—	(0.1)	(0.1)
Cost of share options and long-term incentive plans	—	—	—	5.3	—	5.3
Tax related to items taken directly to equity	—	—	—	2.4	—	2.4
Movement in the carrying value of put options	—	—	—	13.4	—	13.4
At 31 December 2019	18.5	6.8	(1,867.7)	2,844.1	0.6	1,002.3

Shares of £0.1m (2018: £0.1m) have been netted against retained earnings. This represents 7.7m (2018: 8.2m) shares held by the Rentokil Initial Employee Share Trust. The market value of these shares at 31 December 2019 was £35.1m (2018: £27.6m). Dividend income from, and voting rights on, the shares held by the Trust have been waived.

Analysis of other reserves

	Capital reduction reserve £m	Legal reserve £m	Cash flow hedge reserve £m	Translation reserve £m	Total £m
At 1 January 2018	(1,722.7)	10.4	(8.5)	(127.8)	(1,848.6)
Net exchange adjustments offset in reserves	—	—	—	14.9	14.9
Effective portion of changes in fair value of cash flow hedge	—	—	9.5	—	9.5
Total comprehensive income for the year	—	—	9.5	14.9	24.4
At 31 December 2018	(1,722.7)	10.4	1.0	(112.9)	(1,824.2)
Net exchange adjustments offset in reserves	—	—	—	(38.9)	(38.9)
Effective portion of changes in fair value of cash flow hedge	—	—	(0.5)	—	(0.5)
Cumulative exchange recycled to income statement on disposal of foreign operations	—	—	—	(4.1)	(4.1)
Total comprehensive income for the year	—	—	(0.5)	(43.0)	(43.5)
At 31 December 2019	(1,722.7)	10.4	0.5	(155.9)	(1,867.7)

The capital reduction reserve arose in 2005 as a result of the scheme of arrangement of Rentokil Initial 1927 plc, under section 425 of the Companies Act 1985, to introduce a new holding company, Rentokil Initial plc, and the subsequent reduction in capital approved by the High Court whereby the nominal value of each ordinary share was reduced from 100p to 1p.

The legal reserve represents amounts set aside in compliance with local laws in certain countries in which the Group operates.

Consolidated Cash Flow Statement

For the year ended 31 December

	Notes	2019 £m	2018 ¹ £m
Cash flows from operating activities			
Cash generated from operating activities	C9	554.2	454.0
Interest received		10.8	7.7
Interest paid ²		(58.9)	(53.0)
Income tax paid		(43.2)	(45.1)
Net cash flows from operating activities		462.9	363.6
Cash flows from investing activities			
Purchase of property, plant and equipment		(140.1)	(147.2)
Purchase of intangible fixed assets		(30.8)	(22.9)
Proceeds from sale of property, plant and equipment		3.2	2.9
Acquisition of companies and businesses, net of cash acquired ³	B1	(315.7)	(298.4)
Disposal of companies and businesses		391.9	(3.1)
Dividends received from associates	B6	30.4	11.9
Net cash flows from investing activities		(61.1)	(456.8)
Cash flows from financing activities			
Dividends paid to equity shareholders	D1	(85.8)	(74.2)
Capital element of lease payments		(86.3)	(14.7)
Cash outflow on settlement of debt-related foreign exchange forward contracts		(11.7)	(5.6)
Net change to cash flow from investment in term deposits		0.7	(2.5)
Proceeds from new debt		433.8	25.6
Debt repayments		(472.0)	(44.3)
Net cash flows from financing activities		(221.3)	(115.7)
Net increase/(decrease) in cash and cash equivalents		180.5	(208.9)
Cash and cash equivalents at beginning of year		100.9	304.1
Exchange (losses)/gains on cash and cash equivalents		(7.5)	5.7
Cash and cash equivalents at end of the financial year	C3	273.9	100.9

1. The Group has applied IFRS 16 at 1 January 2019. Under the transition method chosen comparative information is not restated.

2. Interest paid includes interest on lease payments of £8.1m (2018: £1.5m).

3. Includes £nil (2018: £4.0m) related to investment in working capital in acquired businesses.

Notes to the Financial Statements

General accounting policies

Basis of preparation

These Consolidated Financial Statements have been prepared in compliance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations as adopted by the European Union as at 31 December 2019. The Consolidated Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities (including derivative instruments).

The Group adopted IFRS 16 Leases with effect from 1 January 2019 and this is the first set of the Group's annual Financial Statements in which this standard is reflected. Changes to significant accounting policies are described on pages 127 and 128.

The Group uses a number of non-GAAP measures to present the financial performance of the business which are not defined under IFRS. An explanation of these Alternative Performance Measures (APMs), along with reconciliation to the nearest equivalent IFRS measure, can be found in Section E on page 160.

After reviewing Group and Company cash balances, borrowing facilities and projected cash flows, the Directors believe that the Group and Company have adequate resources to continue operations over a period of at least 12 months from the date of approval of the Financial Statements. For this reason they continue to adopt the going concern basis in preparing the Consolidated Financial Statements (see the Directors' Report on page 179).

Consolidation

(a) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it (i) has power over the entity; (ii) is exposed or has rights to variable returns from its involvement with the entity; and (iii) has the ability to affect those returns through its power over the entity. The Group reassesses whether or not it controls a subsidiary if facts and circumstances indicate that there are changes to one or more of these three elements of control.

The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. Inter-company transactions, balances, and gains and losses on transactions between Group companies are eliminated on consolidation.

Where the Group loses control of a subsidiary, the assets and liabilities are derecognised along with any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in the income statement. Any interest retained in the former subsidiary is measured at fair value when control is lost. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests which may cause the non-controlling interests to have a deficit balance. Consideration in excess of net identifiable assets acquired in respect of non-controlling interests in existing subsidiary undertakings is taken directly to reserves.

(b) Associates

Associates are those entities in which the Group has significant influence over the financial and operating policies, but not control. Significant influence is usually presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Associates are accounted for using the equity method and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The Consolidated Financial Statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

Gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

Foreign currency translation

(a) Functional and presentation currency

Items included in the Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Consolidated Financial Statements are presented in sterling, which is the Group's functional and presentation currency.

(b) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates; and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments or deemed to be quasi-equity, are taken to other comprehensive income. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at period-end exchange rates.

(c) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, or from the translation of monetary assets and liabilities denominated in foreign currencies at reporting period end exchange rates, are recognised under the appropriate heading in the income statement; except when deferred in equity as qualifying net investment hedges or where certain intra-group loans are determined to be quasi-equity (normally not expected to be repaid).

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant instrument, and derecognised when it ceases to be a party to such provisions. Section C (page 152) of these notes discusses accounting for financial instruments.

Financial assets

The Group classifies its financial assets depending on the purpose for which the financial assets were acquired. At initial recognition the Group carries out a solely payment of principal and interest (SPPI) and a business model test to establish the classification and measurement of its financial assets. Financial assets are classified in the following categories:

(a) Amortised cost

Financial assets under this classification are non-derivative financial assets held to collect the contractual cash flows until maturity and the cash flows are solely payment of principal and interest. Assets measured at amortised cost include trade and other receivables, and cash and cash equivalents.

(b) Fair value through other comprehensive income (FVTOCI)

These are non-derivative financial assets which can be for sale with cash flows that are solely payment of principal and interest. These assets are measured at fair value and changes to market values are recognised in other comprehensive income. The Group has no assets classified under this category.

(c) Fair value through profit and loss (FVTPL)

Financial assets under this classification are assets that cannot be classified in any of the other categories. These assets are measured at fair value and changes to market values are recognised in profit and loss.

Financial liabilities

All financial liabilities are stated at amortised cost using the effective interest rate method except for derivatives, which are classified as held for trading (except where they qualify for hedge accounting) and are held at fair value.

Financial liabilities held at amortised cost include trade payables, vacant property provisions, deferred consideration and borrowings.

Critical accounting estimates and judgements

Assumptions and estimation uncertainties

The Group makes estimates and assumptions concerning the future. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and revisions to estimates are recognised prospectively.

Sensitivities to the estimates and assumptions are provided, where relevant, in the relevant Notes to the Financial Statements. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are listed below (please refer to the notes for further detail):

- ① impairment of goodwill: growth rate and discount rate assumptions and forecast cash flow estimates (Note B2);
- ② income taxes and deferred tax asset: key assumptions about the likelihood and magnitude of out flows in relation to tax provisions, and availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilised (Notes A12 and A14);
- ③ retirement benefits: key actuarial assumptions and estimates over future costs of winding up a scheme (Note A10); and
- ④ put option: growth and discount rate assumptions used to calculate the value of the PCI put option (Note A5).

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the Financial Statements is included in the following note:

- ① IFRS 16 length of each lease: whether to include options to extend and/or termination options when calculating the lease liability (Note B4).

Standards, amendments and interpretations to published standards that are mandatorily effective for the current year

Except as described below, the accounting policies applied in these Financial Statements are the same as those applied in the Group's Consolidated Financial Statements as at and for the year ended 31 December 2018.

The Group has adopted IFRS 16 Leases from 1 January 2019. The details of the changes in accounting policies are disclosed below.

The effect of applying IFRS 16 Leases is the creation of a right-of-use (ROU) asset, representing the rights to use the underlying asset, and a lease liability, representing the obligation to make lease payments, for leases longer than 12 months in duration. In addition, a monthly depreciation and interest charge for each lease is charged to the income statement replacing the operating lease charge that was previously charged to operating expenses.

The Group has applied IFRS 16 using the modified retrospective approach. Accordingly the comparative information presented for 2018 has not been restated; however, leases are separately identified on the balance sheet in 2019.

Under IFRS 16, a contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. On transition to IFRS 16 the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16 the Group recognises ROU assets and lease liabilities for substantially all leases; however, the Group has elected to apply the practical expedient not to recognise ROU assets and lease liabilities for some leases of low-value assets. The lease payments associated with these low-value assets are recognised as an expense on a straight-line basis over the lease term.

The ROU asset is initially measured at cost and subsequently at cost less accumulated depreciation and any impairment losses. The lease liability is initially measured at the present value of the total lease payments that are not already paid at commencement date, discounted using the incremental borrowing rate or the rate implicit in the lease.

Notes to the Financial Statements

continued

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by the lease payments. It is remeasured when there is a change in future lease payments arising from a change in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for lease contracts that contain renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which affects the value of lease liabilities and ROU assets recognised.

Impacts on transition

On transition, for leases previously classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the rate implicit in the lease or appropriate incremental borrowing rate as at 1 January 2019. ROU assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the practical expedient not to recognise ROU assets and liabilities for leases with less than 12 months of lease term remaining.

The impact on transition is summarised below. Please note these do not include amounts for leases that were previously accounted for as finance leases.

	Notes	1 January 2019 £m
ROU asset	B4	176.3
Lease liability	B4	(184.0)
Balance sheet adjustments to working capital		7.7

When measuring lease liabilities for leases that were previously classified as operating leases, the Group discounted lease payments using incremental borrowing rates at 1 January 2019 or rate implicit in the lease. The average rate applied is 3.6%.

A reconciliation of closing operating lease commitments as at 31 December 2018 and transitional IFRS 16 lease liabilities is shown below:

	1 January 2019 £m
Operating lease commitment at 31 December 2018	193.2
Exemption for low-value assets	(0.5)
Exemption for leases with less than 12 months on the lease term at transition	(2.8)
Extension options reasonably certain to be exercised	9.2
Effect of discounting	(15.2)
Lease liability on transition	184.0

Impacts for the period

The Group has reported an ROU asset of £221.2m within non-current assets on the balance sheet, and a total lease liability of £216.7m presented within current and non-current liabilities at 31 December 2019.

In relation to the leases under IFRS 16, the Group has recognised depreciation and interest costs instead of operating lease expenses. During the 12 months ended 31 December 2019 the Group recognised £79.0m of depreciation and £8.1m of interest costs for these leases. This includes the depreciation and interest charged for leases previously accounted for as finance leases.

Other changes in accounting policies

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with effect from 1 January 2019:

- Amendments to IAS 28 Investments in Associates and Joint Ventures;
- Amendment to IAS 19 Employee Benefits;
- Annual Improvements in IFRSs – 2015–2017 Cycle (IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes, IAS 23 Borrowing Costs); and
- IFRIC 23 Uncertainty over Income Tax Treatments.

The application of these amendments has had no material impact on the disclosures of the amounts recognised in the Group's Consolidated Financial Statements. Consequently, no adjustment has been made to the comparative financial information at 31 December 2018.

The Group has not early-adopted any standard, interpretation or amendment that was issued but is not yet effective.

A. Operating

A1. Revenue recognition and operating segments

Revenue recognition

Revenue represents the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled. All revenue is considered revenue from contracts with customers as defined by IFRS 15, including job work and sale of goods. Under IFRS 15, revenue is recognised when a customer obtains control of goods or services in line with identifiable performance obligations. In the majority of cases the Group considers that the contracts it enters into are contracts for bundled services which are accounted for as a single performance obligation. Accordingly the majority of revenue across the Group is recognised on an output basis evenly over the course of the contract because the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs. Job work is short-term contract revenue whereby the period of service is typically less than one month in duration. The performance obligations linked to this revenue type are individual to each job due to their nature, with revenue being recognised at a point in time on completion. Where consumables are supplied separately from the service contract, revenue is recognised at the point the goods transfer.

The transaction price reported for all contracts is the price agreed in the contract and there are no material elements of variable consideration, financing component or non-cash consideration. The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations because the Group has a right to consideration from customers in an amount that corresponds directly with the value to the customer of the performance obligations completed to date.

There are no circumstances in which the Group acts as an agent.

Disaggregation of revenue into category, region and major type of revenue stream is shown below under segmental reporting and in Section E on page 160.

Performance obligations

Revenue recognised over time – contract service revenue

These are mainly full service contracts, inclusive of equipment, maintenance and consumables as required. The inclusive service is treated as a single performance obligation.

- **Pest Control:** the Group offers a range of services with by far the most common being General Pest Maintenance Contracts. Under this type of contract the Group promises to provide a pest control service for the duration of the contract. In order to fulfil this promise equipment is supplied (such as bait boxes) and a technician maintains and monitors the equipment at a set number of visits per year, plus any additional call-outs as required; so there is a stand-ready element to the service as well as an ongoing service. The Group considers that this type of contract is a bundled service as the goods and services are not distinct in the context of the contract; equipment is not supplied without service.
- **Hygiene:** the Group offers a similar type of service to Pest Control, providing washroom equipment, consumables and a technician to service the washroom. This type of contract will include a set number of visits. Dispensers are replenished by the technician. Management considers that the supply of goods and services are not distinct in the context of the contract. Dispensers and other equipment would not be supplied without providing the full service; the equipment is controlled by the Group and ownership does not transfer.
- **Protect & Enhance:** contracts in this business category mainly relate to Ambius (interior landscaping) and Workwear. In Ambius the major types of contract are for supply and maintenance of interior plants. Maintenance is only offered for plants that were supplied by the Group and therefore the services are not distinct in the context of the contract. The assets are positioned and situated by our technicians and the customer is not permitted to relocate them. At the end of the contract any assets on the customer's site are recovered. In Workwear the main type of contract is for supply and laundering of garments for commercial organisations. Supply and laundry are not offered separately, therefore management considers the services not to be distinct in the context of the contract. The service is treated as a bundle and a single performance obligation. Any equipment remains under ownership and control of the Group.

Revenue recognised at a point in time – job work

These services are short term in nature and only an immaterial amount would straddle an accounting period end. There is usually only one performance obligation with revenue recognised at the point of completion of the work.

- **Pest Control:** an example of this type of revenue in the Pest Control category is bird-proofing which is a one-off installation that, depending on the size of the site, may take between a few days and several weeks to complete. There is a single performance obligation (to install bird-proofing) and the customer is billed, and revenue recognised, at the end of the job.
- **Hygiene:** this type of revenue is generated by our Specialist Hygiene team who perform specialist cleaning services such as graffiti removal, deep cleaning of kitchens and washrooms, trauma cleaning, flood or fire damage cleaning. These are usually short-term jobs (under one week) and usually there is a single performance obligation with revenue recognised on completion of the job.
- **Protect & Enhance:** this type of revenue is generated in our Ambius and Property Care business and includes work such as Christmas installations (trees and decorations), woodworm treatment and damp-proofing. There is usually a single performance obligation with revenue recognised at a point in time. The value of this work is immaterial.

Revenue recognised at a point in time – sale of goods

Sale of products and consumables relates mainly to the pest distribution businesses which sell pest control products to retailers and the pest control industry. In the Hygiene business there are some sales of consumables to customers. In all cases, revenue is recognised at the point in time that ownership transfers to the customer.

Contract costs

Contract costs are mainly incremental costs of obtaining contracts (primarily sales commissions directly related to contracts obtained), and to a lesser extent costs to fulfil contracts which are not within the scope of other standards (mainly incremental costs of putting resources in place to fulfil contracts).

It is anticipated that these costs are recoverable over the life of the contract to which they relate. Accordingly the Group capitalises them as contract costs and amortises them over the expected life of the contracts. The expected length of contracts across the Group and associated amortisation periods are between three and six years.

The contract costs recognised in the balance sheet at the period end amounted to £65.4m (2018: £60.9m). The amount of amortisation recognised in the period was £25.9m (2018: £21.9m) and impairment losses were £nil (2018: £nil).

Notes to the Financial Statements

continued

Applying the practical expedient in paragraph 94 of IFRS 15, the Group recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the assets that the Group otherwise would have recognised is one year or less.

Contract assets

Contract assets relate to the Group's right to consideration for performance obligations satisfied but where the customer has yet to be invoiced. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer. All opening balances have been invoiced in the year.

Contract liabilities

Contract liabilities relate to advance consideration received from customers where the performance obligations have yet to be satisfied. All opening balances have subsequently been satisfied in the year. In most business categories where revenue is recognised over time customers are invoiced in advance or simultaneously with performance obligations being satisfied.

Segment reporting

Segmental information has been presented in accordance with IFRS 8 Operating Segments. Reporting segments reflect the internal management reporting structures. Each segment is headed by a Regional Managing Director who reports directly to the Chief Executive and is a member of the Group's Executive Leadership Team responsible for the review of Group performance. The operating businesses within each segment report to the Regional Managing Directors.

Given the international nature of the Group, foreign exchange movements can have a significant impact on regional performance. As a result the segmental analysis is presented at constant exchange rates (CER). Disaggregated revenue under IFRS 15 is the same as the segmental analysis below and is presented at actual exchange rates (AER) in Section E on page 160. Restructuring costs and central and regional costs are presented at a Group level as they are not targeted or managed at reportable segment level. The basis of presentation is consistent with the information reviewed by internal management. Revenue and profit are from Ongoing operations which is defined and reconciled to the nearest equivalent GAAP measure in Section E on page 160.

Revenue and profit from continuing operations

	Revenue 2019 £m	Revenue 2018 £m	Operating profit 2019 £m	Operating profit 2018 £m
France	314.0	300.2	46.5	46.1
Benelux	96.4	90.8	28.2	26.3
Germany	108.4	96.2	33.6	29.1
Southern Europe	136.1	130.2	22.5	19.1
Latin America	60.1	49.9	7.3	6.9
Europe	715.0	667.3	138.1	127.5
UK & Ireland	305.9	288.7	66.4	59.6
Rest of World	158.9	148.5	35.9	34.0
UK & Rest of World	464.8	437.2	102.3	93.6
Asia	234.4	211.1	24.2	21.8
North America	1,040.3	934.2	147.4	127.9
Pacific	190.0	185.1	39.4	38.5
Central and regional costs	–	–	(78.4)	(71.4)
Restructuring costs	–	–	(7.5)	(7.2)
Ongoing operations at CER	2,644.5	2,434.9	365.5	330.7
Disposed businesses ^{1,2}	38.3	37.4	(2.7)	(1.4)
Continuing operations at CER	2,682.8	2,472.3	362.8	329.3
Foreign exchange	31.6	–	2.6	–
Continuing operations at AER	2,714.4	2,472.3	365.4	329.3
One-off items – operating			(14.6)	(22.2)
Amortisation and impairment of intangible assets ³			(85.2)	(61.6)
Operating profit			265.6	245.5

1. Includes revenue of £10.7m (2018: £13.9m) from product sales by the Group to CWS-boco International GmbH. Prior to 30 June 2017, this revenue was classified as intergroup revenue and eliminated on consolidation.

2. Disposed businesses for 2018 is restated to include businesses that were disposed in 2019 to aid year-on-year comparability.

3. Excluding computer software.

Revenue and operating profit relate to the main groups of business category and activity, as described on page 2: Pest Control, Hygiene and Protect & Enhance. Central and regional overheads represent corporate expenses that are not directly attributable to any reportable segment.

Revenue at AER from external customers attributed to the UK amounted to £295.7m (2018: £275.6m), with overseas countries accounting for the balance of £2,418.7m (2018: £2,196.7m). The only countries accounting for more than 10% of revenue from external customers are the US, totalling £1,033.9m (2018: £889.6m), France, totalling £315.6m (2018: £305.0m), and UK, totalling £295.7m (2018: £275.6m). No customer accounts for more than 10% of total revenue.

One-off items – operating of £14.6m includes £25.2m of acquisition and integration costs, a gain of £17.4m in respect of the UK Defined Benefit Pension Scheme buy-out process and a non-cash adjustment of £7.0m to the holding value of the Cannon UK and MPCL acquisitions.

The net gain on disposals of £103.8m disclosed on the statement of profit or loss is the net effect of the disposal of our investment in the CWS-boco International GmbH associate, the disposal of MPCL (less retained business) and the disposal of part of the Cannon UK business.

Analysis of revenue by business category

	Revenue 2019 £m	Revenue 2018 £m
Pest Control	1,734.8	1,534.1
Hygiene	543.7	516.7
Protect & Enhance	397.7	384.1
Disposed businesses	38.2	37.4
Total	2,714.4	2,472.3

Analysis of revenue by type

	Revenue 2019 £m	Revenue 2018 £m
Recognised over time		
Contract service revenue	1,880.9	1,729.2
Recognised at a point in time		
Job work	533.0	471.2
Sales of goods	300.5	271.9
Total	2,714.4	2,472.3

Other segment items included in the consolidated income statement are as follows:

	Amortisation and impairment of intangibles ¹ 2019 £m	Amortisation and impairment of intangibles ¹ 2018 £m
Europe	10.3	7.5
UK & Rest of World	19.6	9.9
Asia	8.4	3.5
North America	33.5	32.0
Pacific	4.0	3.9
Central and regional	6.0	4.8
Disposed businesses	2.0	—
Total at CER	83.8	61.6
Foreign exchange	1.4	—
Total at AER	85.2	61.6
Tax effect	(19.6)	(15.4)
Total after tax effect	65.6	46.2

1. Excluding computer software.

A2. Earnings per share

Basic earnings per share is calculated by dividing the profit after tax attributable to equity holders of the Company by the weighted average number of shares in issue during the year, excluding those held in the Rentokil Initial Employee Share Trust (see note at the bottom of the Consolidated Statement of Changes in Equity) which are treated as cancelled, and including share options for which all conditions have been met.

Adjusted earnings per share is earnings per share adjusted for the after-tax effects of one-off items (including the net gain on disposal of businesses), amortisation and impairment of intangibles, and net interest adjustments. Adjusted profit and earnings per share measures are explained further in Section E on page 160.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to include all potential dilutive ordinary shares. The Group's potentially dilutive ordinary shares relate to the contingent issuable shares under the Group's long-term incentive share plans (LTIPs) to the extent the performance conditions have been met at the end of the period. These share options are issued for nil consideration to employees if performance conditions are met.

Notes to the Financial Statements

continued

Details of the adjusted earnings per share are set out below:

	2019 £m	2018 £m
Profit/(loss) from continuing operations attributable to equity holders of the Company	283.5	(98.5)
One-off items – operating	14.6	22.2
One-off items – associates	2.4	4.8
Net gain on disposals	(103.8)	–
Pension settlement	–	341.6
Amortisation and impairment of intangibles ¹	85.2	61.6
Net interest adjustments	4.0	(8.1)
Tax on above items ²	(19.1)	(82.9)
Adjusted profit from continuing operations attributable to equity holders of the Company	266.8	240.7
Weighted average number of ordinary shares in issue	1,849.0	1,841.2
Adjustment for potentially dilutive shares	11.5	14.5
Weighted average number of ordinary shares for diluted earnings per share	1,860.5	1,855.7
Basic earnings per share	15.33p	(5.35)p
Diluted earnings per share	15.24p	(5.35)p
Basic adjusted earnings per share	14.43p	13.07p
Diluted adjusted earnings per share	14.34p	12.97p

1. Excluding computer software.

2. One-off items – operating £(1.1)m (2018: £4.3m), pension settlement £nil (2018: £64.8m), amortisation and impairment of intangibles £19.6m (2018: £15.4m), net interest adjustments £0.6m (2018: £(1.6)m).

A3. Trade and other receivables

The Group's trade receivables are recognised at the transaction price less provision for impairment. The amount of the provision is recognised in the income statement and movements on provisions for impaired trade receivables are recognised within operating expenses in the income statement. Amounts are generally charged to the provision for impairment of trade receivables when there is no expectation of recovering additional cash.

Expected credit loss (ECL) calculations are performed quarterly and are used to help calculate the provision. ECL calculations are a probability weighted estimate of credit losses and are performed at country level. Credit risk factors that are considered as part of ECL calculations may include but are not limited to: payment history, customer size, customer type (national/residential/commercial/government), age of debt, industry strength, economy, product or service provided.

There is limited concentration of credit risk with respect to trade receivables due to the Group's customer base being large and diverse. The amount of credit risk with respect to customers is represented by the carrying amount on the balance sheet. The Group policy is that credit facilities for new customers are approved by designated managers at regional level. Credit limits are set with reference to trading history and reports from credit rating agencies where they are available. Where this is not feasible the Group may request payment in advance of work being carried out, or settlement by credit card on completion of the work. There are no trade receivables that would otherwise be past due or impaired whose terms have been renegotiated.

	2019 £m	2018 £m
Trade receivables	441.4	421.0
Less: provision for impairment of trade receivables	(28.4)	(25.1)
Trade receivables – net	413.0	395.9
Other receivables	48.5	51.2
Prepayments	30.1	32.7
Contract assets ¹	21.8	16.7
Total	513.4	496.5
Analysed as follows:		
Non-current	12.7	10.8
Current	500.7	485.7
Total	513.4	496.5

1. Contract assets represents revenue that has been recognised for performance obligations satisfied but where the customer has yet to be invoiced. All opening balances have subsequently been invoiced in the year. In most business categories our customers are invoiced in advance or simultaneously with performance obligations being satisfied.

Analysis of the Group's provision for impairment of trade receivables is as follows:

	2019 £m	2018 £m
At 1 January	25.1	24.7
Exchange differences	(1.4)	0.4
Acquisition of companies and businesses	0.4	1.6
Additional provision	14.9	7.0
Receivables written off as uncollectable	(9.1)	(7.3)
Unused amounts reversed	(1.5)	(1.3)
At 31 December	28.4	25.1

The ageing of trade receivables and provision for impairment is as follows:

	Trade receivables 2019 £m	Provision for impairment 2019 £m	Trade receivables 2018 £m	Provision for impairment 2018 £m
Not due	202.4	(0.3)	202.6	—
Overdue by less than 1 month	104.6	(0.4)	89.6	(0.2)
Overdue by between 1 and 3 months	54.6	(0.8)	54.0	(0.4)
Overdue by between 3 and 6 months	31.7	(1.8)	29.9	(1.8)
Overdue by between 6 and 12 months	25.2	(6.5)	22.2	(4.8)
Overdue by more than 12 months	22.9	(18.6)	22.7	(17.9)
At 31 December	441.4	(28.4)	421.0	(25.1)

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2019 £m	2018 £m
Pound sterling	54.1	40.1
Euro	125.6	131.5
US dollar	133.5	122.3
Other currencies	128.2	127.1
	441.4	421.0

Fair value is considered to be equal to carrying value for all trade and other receivables.

A4. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price less applicable variable selling expenses.

	2019 £m	2018 £m
Raw materials	8.4	8.2
Work in progress	1.5	2.4
Finished goods	96.6	92.6
	106.5	103.2

There were no material inventory impairment charges in 2019 and 2018.

Notes to the Financial Statements

continued

A5. Trade and other payables

	2019 £m	2018 £m
Trade payables	187.9	179.4
Social security and other taxes	64.2	62.5
Other payables	66.1	57.4
Accruals	169.1	154.7
Contract liabilities ¹	144.6	133.5
Deferred and contingent consideration (including put option liability of £37.3m (2018: £54.1m))	86.5	99.5
Total	718.4	687.0
Analysed as follows:		
Other payables	17.6	14.8
Deferred and contingent consideration (including put option liability of £37.3m (2018: £54.1m))	40.1	64.3
Total non-current portion	57.7	79.1
Current portion	660.7	607.9
Total	718.4	687.0

1. Contract liabilities represents customer invoices where performance obligations have not yet been satisfied. All opening balances have subsequently been satisfied in the year. In most business categories our customers are invoiced in advance or simultaneously with performance obligations being satisfied

Put options are held following the acquisition of PCI in 2017, where the seller may require the Group to purchase the remaining shares of the business in stages over a fixed term between 2023 and 2027. The put options are accounted for as an anticipated acquisition of the remaining shares and no non-controlling interest is recognised. The Group recognised a put option liability for the anticipated acquisition of these shares in deferred and contingent consideration, and any movements in the carrying value are recognised through equity.

The assumptions that are made in estimating the value of this put option liability are option price and discount rate. A 5% reduction in the estimated option price would result in a £1.9m decrease in the liability, and a 1% decrease in the discount rate would result in a £1.8m increase in the liability.

Other than the put options, there are no liabilities in the table above that bear interest and therefore the cash flows are equal to the carrying value of the liabilities. Cash is due to flow between one and five years for all non-current liabilities and not beyond. Fair value is equal to carrying value for all trade and other payables.

The currency split of trade and other payables are as follows:

	2019 £m	2018 £m
Pound sterling	131.9	119.0
Euro	190.5	196.2
US dollar	207.4	166.6
Other currencies	188.6	205.2
Carrying value	718.4	687.0

A6. Provisions for liabilities and charges

The Group has vacant property, environmental, self-insurance and other provisions. Provisions are recognised when the Group has a present obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount is capable of being reliably estimated. If such an obligation is not capable of being reliably estimated it is classified as a contingent liability (Note D3).

Future cash flows relating to these obligations are discounted when the effect is material. The discount rates used are based on government bond rates in the country of the cash flows, and were 0.9% (2018: between 0.3% and 0.7%) for the UK, and 0.9% (2018: between 0.8% and 2.8%) for the US.

Judgement is required in determining the worldwide provision for environmental restoration. These provisions tend to be long term in nature and the use of an appropriate market discount rate and forecast future utilisation based upon management's best estimate determines the level of provision required at the balance sheet date. The phasing and actual cash spend may be different from the forecast on which the provision is based.

	Vacant properties £m	Environmental £m	Self-insurance £m	Other £m	2019 Total £m	2018 Total £m
At 1 January	8.6	17.1	26.8	18.7	71.2	80.3
Adjustment on initial application of IFRS 16	(6.4)	—	—	—	(6.4)	—
Exchange differences	—	(0.9)	(0.7)	(0.5)	(2.1)	1.2
Additional provisions	0.9	—	14.0	3.9	18.8	20.4
Used during the year	(0.7)	(2.0)	(10.1)	(8.4)	(21.2)	(32.1)
Unused amounts reversed	(0.1)	—	(0.9)	(0.6)	(1.6)	(2.2)
Acquisition of companies and businesses	—	—	—	0.2	0.2	3.3
Unwinding of discount on provisions	—	—	0.2	—	0.2	0.3
At 31 December	2.3	14.2	29.3	13.3	59.1	71.2

Analysed as follows:

Non-current	34.0	42.5
Current	25.1	28.7
Total	59.1	71.2

Vacant properties

The Group holds provision for costs relating to onerous lease contracts on properties it no longer occupies such as security, utilities and insurance. The majority of these contracts end within the next 12 months. On adoption of IFRS 16 Leases, all rental costs were transferred to lease liabilities.

Environmental

The Group owns a number of properties in Europe and the US where there is land contamination. Provisions are held for the remediation of such contamination. These provisions are expected to be substantially utilised within the next six years.

Self-insurance

The Group purchases external insurance from a portfolio of international insurers for its key insurable risks, mainly employee risks. Self-insured retentions have changed over time due to external market conditions and scale of operations. These provisions represent obligations for open claims and are estimated based on actuarial/management's assessment at the balance sheet date. The Group expects to continue self-insuring the same level of risks and estimates that 50% to 75% of claims should settle within the next five years.

Other

Other provisions principally comprise amounts required to cover obligations arising and costs relating to disposed businesses and restructuring costs. Existing provisions are expected to be substantially utilised within the next five years.

A7. Operating expenses by nature

Operating expenses from continuing operations include the following items:

	Notes	2019 £m	2018 £m
Employee costs	A9	1,312.2	1,191.2
Direct materials and services		565.7	511.9
Vehicle costs		142.3	120.6
Property costs		64.9	62.2
Depreciation and impairment of property, plant and equipment	B3	127.3	131.0
Amortisation and impairment of intangible assets	B2	98.8	77.7
Restructuring costs		7.7	7.2
One-off items – operating	A1	14.6	22.2
Other operating expenses		115.3	102.8
Total operating expenses		2,448.8	2,226.8

Notes to the Financial Statements

continued

A8. Audit and non-audit services

	2019 £m	2018 £m
Fees payable to the Company's auditor for the audit of the Parent Company and Group accounts	0.6	0.6
Audit of accounts of subsidiaries of the Group	2.0	2.0
Audit-related assurance services	0.2	0.1
Total audit and audit-related assurance services	2.8	2.7
Taxation advisory services	–	0.1
Total non-audit services	–	0.1
Total audit and non-audit services	2.8	2.8

A9. Employee benefit expense

Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on calculations of achievements of financial performance targets and based on the best estimate of the obligation to employees related to personal performance criteria being achieved. A provision is recognised where a contractual obligation exists or where past practice indicates that there is a constructive obligation to make such payments in the future.

Holiday pay

Paid holidays are regarded as an employee benefit and as such are charged to the income statement as the benefits are earned. An accrual is made at the balance sheet date to reflect the fair value of holidays earned but not yet taken.

Termination benefits

Termination benefits are payable when an employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value where the effect of discounting is material.

	2019 £m	2018 £m
Wages and salaries	1,142.3	1,022.5
Social security costs	129.4	129.5
Share-based payments	5.3	5.7
Pension costs:		
– defined contribution plans	33.7	32.3
– defined benefit plans	1.5	1.2
	1,312.2	1,191.2

Average number of people employed by the Group during the year:

	2019 Number	2018 Number
Processing and service delivery	31,863	28,997
Sales and marketing	5,169	4,916
Administration and overheads	5,901	5,567
	42,933	39,480

Emoluments of the Directors of Rentokil Initial plc are detailed below. Further details are also given in the Directors' Remuneration Report on pages 92 to 111.

	Highest paid Director 2019 £000	Other Directors 2019 £000	Highest paid Director 2018 £000	Other Directors 2018 £000
Aggregate emoluments excluding share options	2,045.4	1,178.2	1,457.2	866.1
Aggregate gains made by Directors on exercise of share options	–	–	–	–
Aggregate amount receivable under long-term incentive schemes	2,512.3	1,615.1	2,761.9	1,775.5
Aggregate value of Company contributions to defined contribution pension schemes	–	–	187.6	72.4
	4,557.7	2,793.3	4,406.7	2,714.0

	2019 Number	2018 Number
Number of Directors accruing retirement benefits		
– defined contribution schemes	2	2
– defined benefit schemes	–	–
Number of Directors exercising share options	–	–
Number of Directors receiving shares as part of long-term incentive schemes	2	2

A10. Retirement benefit obligations

Apart from contributions to legally required social security state schemes, the Group operates a number of pension schemes around the world covering many of its employees.

The principal pension scheme in the Group is the UK Rentokil Initial 2015 Pension Scheme (RIPS) which has a defined contribution section, and a number of defined benefit sections which are now closed to new entrants and future accrual of benefits. On 4 December 2018 the Group signed an agreement with Pension Insurance Corporation plc (PIC) to take over the payment of the liabilities in the scheme via a buy-in, which is anticipated to convert to a full buy-out before the end of 2020. This is discussed in further detail below.

A number of much smaller defined benefit and defined contribution schemes operate elsewhere which are also funded through payments to trustee-administered funds or insurance companies.

Defined benefit schemes are reappraised annually by independent actuaries based upon actuarial assumptions. Judgement is required in determining these actuarial assumptions.

Defined benefit pension plans

A defined benefit pension plan is a plan that estimates the amount of future pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as years of service, compensation and age.

The asset or liability recognised in the balance sheet in respect of defined benefit pension plans is the fair value of plan assets less the present value of the defined benefit obligation at the balance sheet date. The Group determines the net interest on the net defined benefit asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit asset. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have a credit rating of at least AA, are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. The Group will recognise a pension surplus as an asset where there is an unconditional right to a refund or where the Group has a right to reduce future pension contributions, taking into account the adverse effect of any minimum funding requirements.

Current and past service costs, to the extent they have vested, and curtailments are recognised as charges or credits against operating profit in the income statement. Interest income on the net defined benefit asset is recognised in finance income. Remeasurement gains and losses arising from experience adjustments, return on plan assets and changes in actuarial assumptions are charged or credited to the Consolidated Statement of Comprehensive Income.

Defined contribution pension plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity.

The Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Rentokil Initial 2015 Pension Scheme (RIPS)

The assets of the RIPS are legally separated from the Group. The Trustee of the pension fund is Rentokil Initial Pension Trustee Limited. The board comprises five company-nominated directors and three member-nominated directors. The Trustee is required by law to act in the best interests of the plan participants and is responsible for setting certain policies (e.g. investment, contribution and indexation policies) of the RIPS.

On 4 December 2018 the Trustee entered into a binding agreement with PIC to insure the liabilities of the Scheme, known as a buy-in. The Group is committed to convert to a full buy-out before the end of 2020.

The Group achieved buy-in within the value of the assets held by the Scheme and was not required to make any further contributions. While there are still some adjustments expected to the final price, it is anticipated that there will be surplus assets when the scheme finally winds up. These assets are recognised as a retirement benefit asset. This asset has been recognised at management's estimate of the value of surplus that will be returned from the Scheme to the Group.

The defined benefit schemes of the RIPS are reappraised semi-annually by independent actuaries based upon actuarial assumptions in accordance with IAS 19R requirements (including schemes which are insured under a buy-in contract). The assumptions used for the RIPS are shown below:

	31 December 2019	31 December 2018
Weighted average %		
Discount rate	2.0%	2.8%
Future salary increases	n/a	n/a
Future pension increases	3.1%	3.4%
RPI inflation	3.2%	3.5%
CPI inflation	2.2%	2.4%

Notes to the Financial Statements

continued

The defined benefit obligation includes benefits for current employees, former employees and current pensioners. Approximately 41% of the liabilities are attributable to current and former employees and 59% to current pensioners. There have been no significant changes to the membership of the scheme over the year. The scheme duration is an indicator of the weighted-average time until benefit payments are made. For the RIPS as a whole, the duration is around 16 years.

The assets in the scheme consist of cash held in liquidity funds, and the fair value of the insurance policy. The fair value of the insurance policy asset is deemed to be equal to the present value of the related obligations that it covers at the balance sheet date.

Risks

As noted above, the Trustee purchased an insurance policy that covers all retirement benefit obligations within the Scheme, thereby removing exposure to the significant risks within the Scheme (including changes in bond yields, inflation and longevity). The Scheme's insurer (PIC) is now responsible for ensuring there are sufficient assets to meet all future pension obligations, and is subject to EU solvency regulations. There is no volatility associated with the insurance policy asset as under IAS 19 its value is deemed to match the scheme liabilities. Asset volatility is limited only to the assets remaining in the Scheme following this transaction which are expected to be returned to the Company on wind-up of the Scheme. The surplus recognised of £36.6m is management's estimate of the asset that will return to the Company on wind-up (subject to tax at 35%).

Mortality assumptions

The mortality assumptions are based on the recent actual mortality experience of Scheme members, and allow for expected future improvements in mortality rates. The mortality tables used are:

- 98% of the SAPS S2 All base tables for male pensioners;
- 107% of the SAPS S2 All base tables for female pensioners;
- 108% of the SAPS S2 All base tables for male and female non-pensioners; and
- 96% of the SAPS S2 All base tables for male and female dependent pensioners.

Future improvements are made in line with CMI_2018 Core Projections with a long-term rate of future improvement of 1.75% p.a.

Sensitivity of significant assumptions

The purchase of an insurance policy to cover all future benefits means that the sensitivity of the balance sheet and income statement to key assumptions is removed.

Pension benefits

The movement in the net defined benefit obligation for all Group pension schemes over the accounting period is as follows:

	Present value of obligation 2019 £m	Fair value of plan assets 2019 £m	Total 2019 £m	Present value of obligation 2018 £m	Fair value of plan assets 2018 £m	Total 2018 £m
At 1 January	(1,342.0)	1,337.3	(4.7)	(1,415.3)	1,715.4	300.1
Current service costs ¹	(1.2)	–	(1.2)	(1.2)	–	(1.2)
Past service costs ¹	0.6	–	0.6	(36.2)	–	(36.2)
Settlement of defined benefit obligation ¹	–	17.4	17.4	44.6	(350.0)	(305.4)
Administration expenses ¹	(0.4)	–	(0.4)	(1.1)	–	(1.1)
Interest on defined benefit obligation/asset ¹	(35.6)	36.3	0.7	(34.0)	41.7	7.7
Exchange difference	3.6	(2.3)	1.3	(0.7)	0.5	(0.2)
Total pension income/(expense)	(33.0)	51.4	18.4	(28.6)	(307.8)	(336.4)
Remeasurements:						
– Remeasurement gain/(loss) on scheme assets	–	90.8	90.8	–	(20.2)	(20.2)
– Remeasurement (loss)/gain on obligation ²	(96.7)	–	(96.7)	50.3	–	50.3
Transfers:						
– Transferred on acquisition of business	(46.0)	35.2	(10.8)	(4.3)	4.0	(0.3)
– Other transfers	–	–	–	(11.2)	8.5	(2.7)
Contributions:						
– Employers	–	1.2	1.2	0.7	1.3	2.0
– Participants	(0.2)	0.1	(0.1)	(0.1)	0.1	–
– Benefit payments	73.6	(72.2)	1.4	65.4	(64.0)	1.4
– Administration costs	0.4	–	0.4	1.1	–	1.1
At 31 December	(1,443.9)	1,443.8	(0.1)	(1,342.0)	1,337.3	(4.7)
Retirement benefit obligation schemes ³	(106.6)	69.1	(37.5)	(59.5)	33.3	(26.2)
Retirement benefit asset schemes ⁴	(1,337.3)	1,374.7	37.4	(1,282.5)	1,304.0	21.5

1. Service costs, settlement and administration expenses are charged to operating expenses, and interest cost and return on plan assets to finance cost and finance income respectively.

2. The actuarial movement on the UK RIPS comprises remeasurement gain arising from changes in demographic assumptions of £16.5m (2018: gain of £10.0m), remeasurement loss arising from changes in financial assumptions of £129.3m (2018: gain of £60.1m) and remeasurement gains arising from experience of £20.9m (2018: loss of £22.0m).

3. Benefit plans in an obligation position include plans situated in Ireland, the UK, Martinique, Trinidad and Tobago, Norway, South Africa, Germany, Austria, France, Italy, South Korea, Philippines, India, Hong Kong and the US.

4. Benefit plans in an asset position include plans situated in the UK, Australia and Barbados.

Included in the table above is a net defined benefit surplus in relation to the UK RIPS of £36.6m (2018: £20.5m) recognised as defined benefit obligation of £1,333.3m (2018: £1,277.6m) and plan assets of £1,369.9m (2018: £1,298.1m). Of the £1,443.9m (2018: £1,342.0m) of obligations, £16.7m (2018: £15.5m) is unfunded.

Total contributions payable to defined benefit pension schemes in 2020 are expected to be between £4m and £5m.

The fair value of plan assets at the balance sheet date is analysed as follows:

	2019 £m	2018 £m
Equity instruments	38.6	3.7
Debt instruments – unquoted	14.8	14.0
Property	0.6	0.6
Insurance policies	1,335.6	1,261.6
Other	54.2	57.4
Total plan assets	1,443.8	1,337.3

Where available the fair values of assets are quoted prices (e.g. listed equity, sovereign debt and corporate bonds). In other cases the market value as provided by the fund managers has been used in accordance with IFRS 13 Fair Value Measurement:

- ① Unquoted debt instruments (Level 2)
- ② Interest and inflation rate hedging instruments (Level 2)
- ③ Pooled investment funds (Level 3)

Other significant assets are valued based on observable market inputs. Insurance policies are valued at the present value of the related obligations. Other assets primarily consist of cash.

The cumulative actuarial gain recognised in the Consolidated Statement of Comprehensive Income was £44.3m (2018: cumulative gain £50.2m). A remeasurement loss of £5.9m (2018: £30.1m gain) was recognised during the year.

A11. Share-based payments

Share-based compensation

The Group operates one equity-settled share-based long-term incentive plan (LTIP). The economic cost of awarding shares and share options to employees is recognised as an expense in the income statement, equivalent to the fair value of the benefit awarded. The fair value is determined by reference to option pricing models, principally Monte Carlo and adjusted Black-Scholes models. The charge is recognised in the income statement over the vesting period of the award. At each balance sheet date, the Group revises its estimate of the number of shares that vest or options that are expected to become exercisable. Any revision to the original estimates is reflected in the income statement with a corresponding adjustment to equity immediately to the extent it relates to past service, and the remainder over the rest of the vesting period.

Performance Share Plan

The Company introduced a share-based performance plan in 2006 for senior managers worldwide. The main features of the scheme are as follows:

- ① For awards made in 2012 and 2013, the performance conditions are total shareholder return (TSR) performance and an individual performance modifier. No shares will vest or options become exercisable if the share price does not reach median TSR performance at the end of the three-year performance period relative to the constituents of a comparator group, made up of FTSE 350 companies excluding financial services, primary resource and property sector companies. If TSR performance is above the upper quartile and all participants attain their maximum bonus target over the performance period, the full award will vest or become exercisable.
- ② For awards made between 2014 and 2018, one-third of the award is based on EPS growth targets as outlined in the relevant year's Directors' Remuneration Report, and two-thirds of the award is based on TSR over the three-year performance period as explained above.
- ③ For awards made in 2019, 50% of the award is based on TSR and 25% is based on EPS growth targets as explained above. The remaining 25% is based on performance against certain strategic and financial measures over the vesting period as set out in the Directors' Remuneration Report.
- ④ The value of dividends paid during the vesting period are paid on the number of shares that ultimately vest in the form of additional shares (for awards that are nil-cost options, this is the value of dividends between grant and exercise).

The total net charge for the year relating to equity-settled share-based payment plans was £5.3m (2018: £5.7m).

Notes to the Financial Statements

continued

A summary of the number of shares in active share option plans is shown below:

Year of grant	Vesting year	Share options outstanding					Share options exercisable				
		Scheme interest at 1 January 2019	Shares awarded during 2019	Shares lapsed during 2019	Shares vested during 2019	Outstanding at 31 December 2019	Shares exercisable at 1 January 2019	Shares vested during 2019	Shares exercised during 2019	Shares lapsed during 2019	Shares exercisable at 31 December 2019
2008	2011	–	–	–	–	–	1	–	(1)	–	–
2012	2015	–	–	–	–	–	327,458	–	(113,326)	–	214,132
2013	2016	–	17,732	–	(17,732)	–	1,851,336	17,732	(602,915)	–	1,266,153
2014	2017	–	22,194	–	(22,194)	–	2,357,104	22,194	(997,094)	–	1,382,204
2015	2018	196,720	38,309	(9,896)	(225,133)	–	3,247,548	225,133	(1,294,026)	–	2,178,655
2016	2019	6,979,767	298,960	(776,763)	(6,501,964)	–	130,447	6,501,964	(1,951,669)	(1,563,266)	3,117,476
2017	2020	5,100,061	20,750	(402,923)	–	4,717,888	85,235	–	(85,235)	–	–
2018	2021	7,062,910	20,750	(482,563)	–	6,601,097	–	–	–	–	–
2019	2022	–	5,374,403	(48,097)	–	5,326,306	–	–	–	–	–

The fair value of the 2019 awards made under the 2006 Performance Share Plan is charged to the income statement over the vesting period based on values derived from a Monte Carlo model prepared by external remuneration consultants. This is a closed-form solution which takes account of the correlation between share price performance and the likelihood of a TSR performance condition being met. For the shares awarded in March 2019, the significant inputs into the model were a share price of 347.0p (2018: 271.2p), an expected share price volatility of 19.4% (2018: 18.4%), a median share price correlation between the companies in the comparator group of 28.0% (2018: 25.5%), and an expected life commensurate with the three-year performance/vesting period. The share price volatility assumption is based on analysis of historical daily share prices. As the awards are nil-cost (i.e. there is no exercise price), the assumed risk-free rate of return has minimal impact on the fair value of the awards. Similarly, as dividend equivalents are paid on the vesting portion of awards, the fair value of these awards is not reduced to reflect dividends paid during the vesting period.

The fair value of awards granted during 2019 was £15.0m (2018: £11.4m).

A12. Income tax expense

Income tax expense for the period comprises both current and deferred tax. Current tax expense represents the amount payable on this year's taxable profits and any adjustment relating to prior years. Taxable profits differ from accounting profits as some items of income or expenditure are not taxable or deductible or may be taxable or deductible in a different accounting period. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income.

Deferred tax is an accounting adjustment to provide for tax that is expected to arise in the future due to differences between accounting and tax bases. Deferred tax is determined using tax rates that are expected to apply when the timing difference reverses based on tax rates which are enacted or substantively enacted at the balance sheet date. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or equity. In this case the tax is also recognised in other comprehensive income or equity as appropriate.

Analysis of charge in the year:

	2019 £m	2018 £m
UK corporation tax at 19.0% (2018: 19.0%)	8.3	7.0
Overseas taxation	41.6	34.5
Adjustment in respect of previous periods	8.8	4.0
Total current tax	58.7	45.5
Deferred tax expense/(credit)	0.7	(57.2)
Deferred tax adjustment in respect of previous periods	(4.7)	(4.1)
Total deferred tax	(4.0)	(61.3)
Total income tax expense/(credit)	54.7	(15.8)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	2019 £m	2018 £m
Profit/(loss) before income tax	338.5	(114.1)
Tax calculated at domestic tax rates applicable to profits in the respective countries	82.6	(15.7)
Adjustment in respect of previous periods	4.1	(0.1)
Deferred tax recognised on losses	(7.7)	4.0
Expenses not deductible for tax purposes – restructuring costs and one-off items	8.0	1.2
Expenses not deductible for tax purposes – interest payable	2.0	1.3
Expenses not deductible for tax purposes – other	2.4	2.3
Impairment of goodwill	1.0	–
Goodwill deductions	(1.3)	(1.0)
Income not subject to tax	(0.7)	(1.7)
Overseas financing deductions	–	(4.0)
Utilisation of previously unrecognised tax losses	(5.7)	(4.4)
Losses not relieved	1.0	0.8
Deferred tax impact of change in tax rates	0.2	(1.9)
Provisions utilised for which no deferred tax assets were recognised	(2.2)	(1.2)
Overseas withholding tax suffered	0.5	–
Deferred tax on unremitted earnings	0.8	0.5
Tax on overseas dividends	1.0	0.1
Local business taxes	1.6	1.9
Foreign exchange differences	(3.5)	(1.1)
Disposal gain not subject to tax	(31.6)	–
US BEAT liability	2.2	3.2
Total tax expense/(credit)	54.7	(15.8)

The Group's Effective Tax Rate (ETR) before amortisation of intangible assets (excluding computer software), one-off items and the net interest adjustments for 2019 was 21.6% (2018: 21.8%). This compares with a blended rate of tax for the countries in which the Group operates of 23% (2018: 22%).

The Group's tax charge and ETR will be influenced by the global mix and level of profits, changes in future tax rates and other tax legislation, foreign exchange rates, the utilisation of brought-forward tax losses on which no deferred tax asset has been recognised, the resolution of open issues with various tax authorities, acquisitions, and disposals.

The Group's ETR is expected to remain above the UK tax rate due to the proportion of overseas profits which are taxed at a higher rate than UK profits. We expect our ETR for 2020 to be similar to 2019. In the medium term the Group's Adjusted ETR is likely to increase towards the blended tax rate once there is no further benefit from tax losses on which no deferred tax asset is currently recognised as their recoverability is not considered probable, but may become probable in the future. The blended tax rate is expected to increase to 24% in 2020 due to a change in the global mix of profits.

A13. Current tax liabilities

Tax liabilities are classified as current liabilities unless there is a right to defer the payment of the liability for at least one year after the balance sheet date. As at 31 December 2019 all the Group's tax liabilities have been classified as current as there is no legally enforceable right to defer payment for more than 12 months.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the asset and liability.

The Group is subject to income taxes in numerous jurisdictions. There are various uncertainties relating to the determination of its tax liabilities where the ultimate tax liability cannot be known until a resolution has been reached with the relevant tax authority, or the issue becomes time barred. Issues can take many years to resolve and therefore assumptions on the likely outcome have to be made by management.

Where considered appropriate, management establishes provisions for uncertain tax positions on the basis of amounts expected to be paid to the tax authorities. The Group's current tax liabilities reflect management's best estimate of the future amounts of corporation tax that will be settled. This is based on management's interpretation of relevant tax rules, external advice obtained, the status of the negotiations and past experience. Uncertain tax positions are assessed on an issue-by-issue basis within the countries in which we operate. Total tax provisions and accruals (including interest thereon) amounted to £72.8m as at 31 December 2019 (2018: £63.7m). Included within this amount is £12.7m in respect of interest arising on tax provisions which is included within other payables. These tax provisions relate to multiple issues across the countries in which the Group operates. The net increase in the provisions for the year includes a new provision in relation to EU state aid where the European Commission has decided that the Group Finance Exemption in the UK's controlled foreign company rules partially constitutes unlawful state aid. Along with the UK government and many other UK companies we have appealed against this decision, but this is expected to take several years to resolve.

Tax provisions can be built up over a number of years but in the year of resolution there could be adjustments to these provisions which could have a material positive or negative impact on the tax charge for a particular year. The settlement of a significant issue could also have a material impact on the amount of cash tax payable in any one year. Significant judgement is required in determining the worldwide provision for income taxes particularly in relation to the pricing of intra-group goods and services as well as debt financing.

Notes to the Financial Statements

continued

The majority of the tax provisions relate to transfer pricing exposures where the Group faces a number of risks in jurisdictions around the world, and is subject to audits by tax authorities in the territories in which it operates. These tax audits have an uncertain outcome and can take several years to resolve which in some cases may be dependent on litigation. The actual outcome could vary from management's estimates, but these are updated at each reporting period in the light of the latest available information.

Apart from transfer pricing exposures the largest single provision relates to a financing structure where the amount provided is now £16.3m.

This is a legacy issue going back to the years 2002 to 2005. The Group is fully provided for the potential tax and interest payable so there is not expected to be an adverse impact on the income statement. It is unclear when this issue will be resolved and therefore the timing of any payment is uncertain, but it is probable that it will be in the next three years.

The cash tax paid for the year was £43.2m (2018: £45.1m). The cash tax paid is expected to increase in future periods as open issues are resolved although it is not possible to estimate the exact timing of tax cash flows.

A14. Deferred income tax

Deferred income tax is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities in transactions other than a business combination that at the time of the transactions affect neither the accounting nor taxable profit or loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred income tax is determined using tax rates (and laws) that have been enacted (or substantively enacted) at the balance sheet date, and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax balances are not discounted.

Deferred tax assets and liabilities are offset against each other when the timing differences relate to income taxes levied by the same tax authority on an entity or different entities which are part of a tax consolidation and there would be the intention to settle on a net basis.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. The amount of deferred tax assets recognised at each balance sheet date is adjusted to reflect changes in management's assessment of future taxable profits that will enable the tax losses to be recovered. In recognising the deferred tax asset in respect of UK losses, management has estimated the quantum of future UK taxable profits over the next five years as this is the period over which it is considered that profits can be reasonably estimated.

The movement on the deferred income tax account is as follows:

	2019 £m	2018 £m
At 1 January	(92.5)	(105.9)
Exchange differences	4.7	(1.9)
Acquisition of companies and businesses	(1.6)	(20.1)
Net impact of disposals	1.4	—
Credited to the income statement ¹	4.0	61.3
Credited/(charged) to other comprehensive income	0.1	(25.9)
Credited to equity	2.4	—
At 31 December	(81.5)	(92.5)
Deferred taxation has been presented on the balance sheet as follows:		
Deferred tax asset within non-current assets	29.3	3.5
Deferred tax liability within non-current liabilities	(110.8)	(96.0)
	(81.5)	(92.5)

1. Deferred taxation credited to the income statement includes a gain of £6.4m (2018: £(66.0)m loss) relating to the pension settlement.

The major components of deferred tax assets and liabilities at the year end (without taking into consideration the offsetting of balances within the same tax jurisdiction) are as follows:

	Customer lists/ Intangibles £m	Accelerated tax depreciation £m	Retirement benefits £m	Unremitted earnings from subsidiaries £m	Tax losses £m	Share-based payments £m	Other £m	Total £m
At 1 January 2019	78.6	50.6	(0.5)	4.0	(23.2)	(7.0)	(10.0)	92.5
Exchange differences	(2.7)	(2.3)	—	—	—	—	0.3	(4.7)
Recognised in income statement	(3.5)	(6.3)	6.4	0.2	0.2	1.1	(2.1)	(4.0)
Recognised in other comprehensive income	—	—	(1.4)	—	—	—	1.3	(0.1)
Recognised in equity	—	—	—	—	—	(2.4)	—	(2.4)
Acquired in business combinations	1.6	—	—	—	—	—	—	1.6
Impact of disposals	(1.4)	—	—	—	—	—	—	(1.4)
At 31 December 2019	72.6	42.0	4.5	4.2	(23.0)	(8.3)	(10.5)	81.5

A deferred tax asset of £14.4m (2018: £6.7m) has been recognised in respect of UK losses carried forward at 31 December 2019. This amount has been calculated by estimating the future UK taxable profits, against which the UK tax losses will be utilised, and applying the tax rates (substantively enacted as at the balance sheet date) applicable for each year. Remaining UK tax losses of £62.0m have not been recognised as at 31 December 2019 as it is not considered probable that future taxable profits will be available against which the tax losses can be offset. The increase in the deferred tax asset recognised on the UK tax losses is due to an increase in the UK taxable profits forecast for the next five years.

At the balance sheet date the Group had tax losses of £120.4m (2018: £216.3m) on which no deferred tax asset is recognised because it is not considered probable that future taxable profits will be available in certain jurisdictions to be able to benefit from those tax losses. Of the losses, £15.5m (2018: £19.2m) will expire at various dates between 2020 and 2031.

In addition, the Group has UK capital losses carried forward of £276.9m (2018: £276.9m) on which no deferred tax asset is recognised. These losses have no expiry date but management considers the future utilisation of these losses to be unlikely.

Dividends received from subsidiaries are largely exempt from UK taxation but may be subject to dividend withholding taxes levied by the overseas tax jurisdictions in which the subsidiaries operate. A deferred tax liability of £4.2m (2018: £4.0m) has been recognised in respect of this liability as it is anticipated that these profits will be distributed to the UK. At the balance sheet date there is no material unprovided deferred tax liability were overseas earnings to be distributed to the UK.

Notes to the Financial Statements

continued

B. Investing

B1. Business combinations

All business combinations are accounted for using the purchase method (acquisition accounting) in accordance with IFRS 3 Business Combinations. The cost of a business combination is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the acquirer. The cost of a business combination is allocated at the acquisition date by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

An intangible asset is recognised if it meets the definition of an intangible asset under IAS 38 Intangible Assets. The intangible assets arising on acquisition are goodwill, customer lists and relationships, and brands. Goodwill represents the synergies, workforce and other benefits expected as a result of combining the respective businesses. Customer lists and relationships and brands are recognised at their fair value at the date of acquisition using an income-based approach, which involves the use of assumptions including customer termination, profit margins and discount rates. The use of these assumptions requires estimation in the valuation approach; however, it is not considered that these estimates carry a significant risk of material adjustment. There is not considered to be any likely scenario where the asset would be adjusted after the measurement period due to a change in the estimate or assumptions made. Any change to these assumptions would only apply to future acquisitions and the existing intangibles would only ever be reviewed if there was an indicator of impairment.

At the date of acquisition, deferred and contingent consideration represents its fair value, with subsequent changes being recognised in the Consolidated Statement of Profit or Loss.

Costs directly attributable to business combinations are charged to the income statement as incurred and presented as one-off items.

During the year the Group purchased 100% of the share capital or trade and assets of 41 companies and businesses. The total consideration in respect of these acquisitions was £328.6m and the cash outflow from current and past period acquisitions, net of cash acquired, was £315.7m. An overview of the acquisitions in the year can be found in the Financial Review on page 119.

Details of goodwill and the fair value of net assets acquired are as follows:

	2019 £m	2018 £m
Purchase consideration		
– Cash paid	290.3	258.4
– Deferred and contingent consideration	38.3	31.2
Total purchase consideration	328.6	289.6
Fair value of net assets acquired	(62.8)	(123.9)
Goodwill from current year acquisitions	265.8	165.7

Deferred consideration of £23.4m and contingent consideration of £14.9m are payable in respect of the above acquisitions. Contingent consideration is payable based on a variety of conditions including revenue and profit targets being met. Both deferred and contingent consideration are payable over the next five years. The Group has recognised the contingent and deferred consideration based on the fair value of the consideration at the acquisition date.

The provisional fair value¹ of assets and liabilities arising from acquisitions in the year are as follows:

	2019 £m	2018 £m
Non-current assets		
– Intangible assets ²	70.5	124.7
– Property, plant and equipment	17.0	16.5
Current assets ³	14.3	29.6
Current liabilities	(20.8)	(22.4)
Non-current liabilities ⁴	(18.2)	(24.5)
Net assets acquired	62.8	123.9

1. The provisional fair values will be finalised in the 2020 Financial Statements. The fair values are provisional since the acquisition accounting has not yet been finalised as a result of the proximity of many acquisitions to the year end.

2. Includes £67.9m (2018: £124.3m) of customer lists and relationships and £2.6m (2018: £0.4m) of other intangibles.

3. Includes trade and other receivables of £5.9m (2018: £18.8m) which represents the gross and fair value of the assets acquired.

4. Includes £(4.2)m of deferred tax relating to acquired intangibles (2018: £(19.4)m).

The cash outflow from current and past acquisitions is as follows:

	2019 £m	2018 £m
Total purchase consideration	328.6	289.6
Consideration payable in future periods	(38.3)	(31.2)
Purchase consideration paid in cash	290.3	258.4
Cash and cash equivalents in acquired companies and businesses	(6.0)	(4.4)
Cash outflow on current period acquisitions	284.3	254.0
Deferred consideration paid	31.4	40.4
Cash outflow on current and past acquisitions	315.7	294.4

From the dates of acquisition to 31 December 2019, these acquisitions contributed £64.1m to revenue and £11.6m to operating profit.

If the acquisitions had occurred on 1 January 2019, the revenue and operating profit of the Group would have amounted to £2,793.7m and £273.0m respectively.

B2. Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, where applicable.

A breakdown of intangible assets is as shown below:

	Goodwill £m	Customer lists and relationships £m	Brands £m	Product development £m	Computer software £m	2019 Total £m	2018 Total £m
Cost							
At 1 January	1,190.0	771.4	66.5	28.1	114.3	2,170.3	1,791.5
Exchange differences	(55.7)	(32.0)	(2.6)	–	(2.9)	(93.2)	60.1
Additions	–	–	0.4	5.6	24.8	30.8	22.9
Disposals/retirements	(1.9)	–	–	–	(1.3)	(3.2)	(1.1)
Acquisition of companies and businesses	290.3	38.4	2.7	–	0.2	331.6	297.1
Disposal of companies and businesses	(31.0)	(13.5)	(0.3)	–	–	(44.8)	(0.2)
Transfers ¹	(15.0)	18.5	–	–	–	3.5	–
At 31 December	1,376.7	782.8	66.7	33.7	135.1	2,395.0	2,170.3
Accumulated amortisation and impairment							
At 1 January	(33.2)	(493.7)	(39.8)	(14.4)	(80.1)	(661.2)	(571.3)
Exchange differences	1.5	21.8	1.6	–	2.1	27.0	(13.0)
Disposals/retirements	1.9	–	–	–	1.2	3.1	0.7
Disposal of companies and businesses	–	8.3	–	–	–	8.3	0.1
Impairment charge	(4.4)	–	–	(0.6)	–	(5.0)	(0.4)
Amortisation charge	–	(70.5)	(4.7)	(5.0)	(13.6)	(93.8)	(77.3)
At 31 December	(34.2)	(534.1)	(42.9)	(20.0)	(90.4)	(721.6)	(661.2)
Net book value							
At 1 January	1,156.8	277.7	26.7	13.7	34.2	1,509.1	1,220.2
At 31 December	1,342.5	248.7	23.8	13.7	44.7	1,673.4	1,509.1

1. Due to Competition & Markets Authority restrictions imposed after the acquisition of Cannon UK, the Group was unable to fully review the acquisition accounting within the adjustment period. Due to its materiality an adjustment has been made in 2019 to correct the value of customer lists by £18.5m. Additionally there is a deferred tax adjustment to the Cannon UK goodwill balance of £3.5m which has been reflected in the deferred tax balance in Note A14. Therefore the net transfer out of goodwill was £15.0m

Notes to the Financial Statements

continued

The main categories of intangible assets are as follows:

Intangible assets – finite useful lives

Intangible assets with finite useful lives are initially measured at either cost or fair value and amortised on a straight-line basis over their useful economic lives, which are reviewed on an annual basis. The fair value attributable to intangible assets acquired through a business combination is determined by discounting the expected future cash flows to be generated from that asset at the risk-adjusted weighted average cost of capital for the Group. The residual values of intangible assets are assumed to be nil.

The estimated useful economic lives of intangible assets are as follows:

Customer lists and relationships:	3 to 15 years
Brands:	2 to 15 years
Product development	2 to 5 years
Computer software:	3 to 5 years

The following are the main categories of intangible assets with finite useful lives:

(a) Customer lists and relationships

Customer lists and relationships are acquired as part of business combinations. No value is attributed to internally generated customer lists or relationships.

(b) Brands

Brands are acquired as part of business combinations. No value is attributed to internally generated brands as expenditure incurred to develop, maintain and renew brands internally is recognised as an expense in the period incurred.

(c) Product development

Costs incurred in the design and testing of new or improved products are recognised as intangible assets only if the cost can be measured reliably, and it is probable that the project will be a success considering its commercial and technological feasibility. Capitalised product development expenditure is measured at cost less accumulated amortisation.

Other development expenditure and all research expenditure are recognised as an expense as incurred.

Development costs recognised as an expense are never reclassified as an asset in a subsequent period. Development costs that have been capitalised are amortised from the date the product is made available.

(d) Computer software

Costs that are directly associated with the production of identifiable and unique software products that are controlled by the Group (including employee costs and external software development costs) are recognised as intangible assets if they are expected to generate economic benefits beyond one year, in excess of their cost. Purchased computer software is initially recognised based on the costs incurred to acquire and bring it into use.

Costs associated with maintaining computer software are recognised as an expense in the period in which they are incurred.

Intangible assets – indefinite useful lives

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. It is recognised as an intangible asset. Goodwill arising on the acquisition of an associate is included in investments in associates.

	2019 £m	2018 £m
France	9.5	9.7
Benelux	5.8	6.2
Germany	9.2	9.7
Southern Europe	30.2	31.9
Latin America	21.7	19.8
Europe	76.4	77.3
UK & Ireland	61.3	83.7
Rest of World	35.3	36.2
UK & Rest of World	96.6	119.9
Asia	137.8	141.0
North America ¹	961.3	746.5
Pacific	70.4	72.1
Total	1,342.5	1,156.8

1. Includes £719.8m (2018: £654.8m) relating to the US Pest Control cash-generating unit (CGU) and £154.5m (2018: £nil) relating to the newly acquired Florida Pest Control CGU

Impairment tests for goodwill

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to cash-generating units (CGUs) identified according to country of operation and reportable business unit. The way in which CGUs are identified has not changed from prior periods. Newly acquired entities might be a single CGU until such time that they can be integrated. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

The recoverable amount of a CGU is determined based on the higher of value-in-use calculations using cash flow projections and fair value less costs to sell if appropriate. The cash flow projections in year one are based on financial budgets approved by management, which are prepared as part of the Group's normal planning process. Cash flows for years two to five use management's expectation of sales growth, operating costs and margin, based on past experience and expectations regarding future performance and profitability for each CGU. Cash flows beyond the five-year period are extrapolated using estimated long-term growth rates (LTGR).

For the Rentokil PCI CGU in India the assumptions made in estimating the value of the future cash flows are an LTGR of 5.0%, a post-tax discount rate of 10.9% and cash flows based on a short-term average growth in revenue of 7.4%. For the current headroom to be reduced to zero, the LTGR would need to be reduced to 4.0%; the discount rate would need to increase to 11.7%; or the short-term revenue growth rate would need to reduce to 6.7%.

For all other goodwill balances it can be demonstrated that there is material headroom in the recoverable amount of the CGU goodwill balances based on the assumptions made, and there is not considered to be any reasonably likely scenario under which material impairment could be expected to occur based on the testing performed.

The key assumptions used by individual CGUs for value-in-use calculations were:

	2019 long-term growth rate ¹	2019 pre-tax discount rate	2018 long-term growth rate ¹	2018 pre-tax discount rate
France	1.6%	11.3–11.7%	1.6%	9.2–9.3%
Benelux	1.5%	10.4–11.2%	1.5–1.9%	9.5–10.2%
Germany	1.2%	12.6–12.8%	1.2%	10.5%
Southern Europe	0.7–1.6%	10.5–11.5%	0.8–1.7%	12.3–13.4%
Latin America	2.2–2.7%	12.1–13.9%	2.2–2.9%	13.3–14.7%
UK & Ireland	1.6–2.7%	9.4–9.6%	1.6–2.8%	7.0–7.6%
Rest of World	1.1–2.7%	9.1–18.9%	1.8–2.0%	7.8–18.6%
Asia	3.0–5.0%	9.2–12.0%	2.6–8.2%	10.5–11.7%
North America ^{2,3}	(0.8)–1.6%	10.5–16.6%	(0.8)–1.6%	8.4–10.3%
Pacific	2.5–2.6%	9.5–11.1%	2.4–2.5%	9.3–9.5%

1. Source: www.imf.org.

2. Key assumptions used by the US Pest Control CGU were a long-term growth rate of 1.6% (2018: 1.4%) and a pre-tax discount rate of 10.8% (2018: 8.6%).

3. Negative growth rate in the North America region is due to the Puerto Rico business.

The growth rates used by individual CGUs are based on the LTGR predicted for the relevant sector and country in which a business operates. They do not exceed the long-term average growth rate for that industry or country. The pre-tax discount rates are based on the Group's weighted average cost of capital adjusted for specific risks relating to the relevant sector and country.

Notes to the Financial Statements

continued

B3. Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation with the exception of freehold land and assets under construction which are not depreciated. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

A breakdown of property, plant and equipment is shown below:

	Land and buildings £m	Service contract equipment £m	Other plant and equipment £m	Vehicles and office equipment £m	2019 Total £m	2018 Total £m
Cost						
At 1 January	83.4	475.2	171.9	254.1	984.6	880.6
IAS 17 finance leases transferred to IFRS 16 ROU assets	–	–	–	(60.1)	(60.1)	–
Exchange differences	(5.0)	(26.4)	(9.6)	(8.3)	(49.3)	13.2
Additions	2.1	104.3	14.7	20.8	141.9	161.0
Disposals	(3.3)	(68.1)	(8.3)	(29.4)	(109.1)	(88.6)
Acquisition of companies and businesses	6.9	0.3	1.0	8.3	16.5	19.0
Disposal of companies and businesses	–	–	(0.1)	(0.1)	(0.2)	(0.6)
At 31 December	84.1	485.3	169.6	185.3	924.3	984.6
Accumulated depreciation and impairment						
At 1 January	(27.0)	(255.9)	(119.3)	(145.5)	(547.7)	(490.4)
IAS 17 finance leases transferred to IFRS 16 ROU assets	–	–	–	18.4	18.4	–
Exchange differences	1.7	15.5	6.8	5.6	29.6	(7.0)
Disposals	1.2	61.6	7.1	24.5	94.4	80.7
Impairment charge	–	–	–	–	–	(0.1)
Depreciation charge	(3.0)	(94.4)	(11.3)	(18.6)	(127.3)	(130.9)
At 31 December	(27.1)	(273.2)	(116.7)	(115.6)	(532.6)	(547.7)
Net book value						
At 1 January	56.4	219.3	52.6	108.6	436.9	390.2
At 31 December	57.0	212.1	52.9	69.7	391.7	436.9

Depreciation of assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

Freehold buildings	50 to 100 years
Leasehold improvements	shorter of the lease term or estimated useful life
Vehicles	4 to 10 years
Plant and equipment (including service contract equipment)	3 to 10 years
Office equipment, furniture and fittings	3 to 10 years

Residual values and useful lives of assets are reviewed annually and amended as necessary. Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the fixed asset may exceed its recoverable amount. There were no impairments in the year (2018: £0.1m).

When assets are sold, the gain or loss between sale proceeds and net book value is recognised in the income statement.

The category of service contract equipment represents the pool of assets used by the Group in delivering contracted services to customers. Land and buildings comprise mainly factories and offices.

B4. Leases

On 1 January 2019 the Group implemented IFRS 16 Leases, using the modified retrospective approach. Comparatives have not been restated for the implementation of IFRS 16 and any comparatives shown below represent finance leases under IAS 17.

The Group leases land and buildings, vehicles and other equipment. The lease durations vary from lease to lease according to the asset leased and local practices. Some of the Group's leases have extension and termination options attached to them. Lease extension options and lease termination options are only included in the calculation of the lease liability if there is reasonable certainty that they will be exercised. Judgement is required to determine the level of certainty.

The value of leases to which the Group is committed but have not yet commenced is not material.

The Group has exercised one sale and leaseback transaction in the year which resulted in a net cash inflow of £3.4m and a gain in the year of £0.5m. The new lease term is 15 years with a total lease liability at the start of the lease of £1.9m.

A breakdown of the right-of-use (ROU) assets is shown below:

	Land and buildings £m	Vehicles £m	Other equipment £m	2019 Total £m
Net book value				
At 1 January (on transition)	108.9	65.2	2.2	176.3
IAS 17 finance leases (transferred from Property, Plant and Equipment)	–	41.7	–	41.7
Exchange differences	0.1	(1.9)	–	(1.8)
Depreciation charge	(36.7)	(41.1)	(1.1)	(78.9)
Additions	31.9	51.1	0.6	83.6
Disposals	(0.2)	(0.2)	–	(0.4)
Acquisition of companies and businesses	0.6	0.1	–	0.7
At 31 December	104.6	114.9	1.7	221.2

Analysis of the Group's lease liabilities is shown below:

	2019 £m
Lease liabilities under IFRS 16	
At 1 January (on transition)	184.0
IAS 17 finance leases at 1 January	41.7
Exchange differences	(1.3)
Cash outflow	(93.9)
Interest	8.1
Additions	77.4
Acquisition of companies and businesses	0.7
At 31 December	216.7
Analysed as follows:	
Non-current	144.7
Current	72.0
Total	216.7

Notes to the Financial Statements

continued

Lease liabilities analysed by currency:

	2019 £m	2018 £m
Pound sterling	33.5	—
Euro	57.3	1.9
US dollar	76.3	36.2
Other currencies	49.6	3.6
At 31 December	216.7	41.7

Lease liabilities are payable as follows:

	2019 £m	2018 £m
Lease liabilities under IFRS 16		
Less than one year	78.6	14.4
Between one and five years	143.9	271
More than five years	14.2	0.2
Future minimum payments	236.7	41.7
Effect of discounting	(20.0)	—
Carrying value	216.7	41.7

Fair value is considered to be equal to carrying value for all lease liabilities.

Other lease costs not already described are set out below:

	2019 £m
Expenses relating to short-term leases	10.2
Expenses relating to leases of low-value assets	4.8
Expenses relating to variable lease payments	1.0
At 31 December	16.0

The Group has no material arrangements where it acts as a lessor.

B5. Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	2019 £m	2018 £m
Property, plant and equipment	6.5	7.8
Intangible assets	1.3	1.5
Total	7.8	9.3

B6. Investments in associated undertakings

	2019 £m	2018 £m
Interest in CWS-boco International GmbH	–	265.4
Interest in Nippon Calmic Ltd	29.7	26.3
At 31 December	29.7	291.7

CWS-boco International GmbH

CWS-boco International GmbH was an associated undertaking in which the Group had a 17.8% ownership interest. On 30 July 2019, the Group sold its interest to the majority owners (Haniel) for a cash consideration of €418.9m. The associated undertaking was unlisted and the investment value at the point of disposal was £239.2m; a reconciliation is shown below:

	2019 £m	2018 £m
At 1 January	265.4	258.5
Exchange differences	(6.8)	3.2
Share of profit ¹	7.0	12.1
Dividends received	(26.4)	(8.4)
Disposal	(239.2)	–
At 31 December	–	265.4

1. Share of profit is net of tax of £3.1m (2018: £5.2m).

Nippon Calmic Ltd

Nippon Calmic Ltd is an associated undertaking in Japan in which the Group has a 49% interest. The associate is unlisted and the investment value is shown below.

	2019 £m	2018 £m
At 1 January	26.3	20.2
Exchange differences	(0.8)	2.1
Share of profit ¹	8.2	7.5
Dividends received	(4.0)	(3.5)
At 31 December	29.7	26.3

1. Share of profit is net of tax of £3.9m (2018: £3.7m).

The Group's interest of 49% in its principal associate, was as follows:

	Assets 2019 £m	Liabilities 2019 £m	Revenue 2019 £m	Profit 2019 £m	Assets 2018 £m	Liabilities 2018 £m	Revenue 2018 £m	Profit 2018 £m
Nippon Calmic Ltd	56.2	(26.3)	54.2	8.2	41.4	(14.3)	48.9	7.5

Notes to the Financial Statements

continued

C. Financing

C1. Financial risk management

The Group's central treasury function manages cash, borrows on behalf of the Group, and provides finance to Group companies in their local currencies. Treasury activity is governed by a Treasury Committee, which is chaired by the Chief Financial Officer.

The main financial risks faced by the Group are set out below.

(a) Liquidity risk

The Group is committed to ensuring it has sufficient liquidity to meet its business needs, and appropriate reserves to cover operational underperformance or dislocation in the financial markets. The Group's policy is to have headroom of unrestricted cash and available committed facilities of at least £150m, and the Treasury Committee manages financing requirements and associated headroom at least 12 months forward.

The Group has a revolving credit facility (RCF) with 17 relationship banks and a committed bilateral term loan with another relationship bank (see Note C6 for details). All of these facilities contain covenants that require EBITDA:net interest to be at least 4.0:1.0 and that net debt:adjusted EBITDA should be no greater than 3.5:1.0. Compliance with financial and other covenants is reviewed regularly and financial covenants are reported to the lenders semi-annually in line with the requirements under the facilities. The Group remains compliant with its covenants.

The Group targets a Standard & Poor's (S&P) investment grade credit rating for debt issuance of BBB over the medium term. In line with S&P liquidity ratio requirements, debt maturities are financed at least 12 months in advance using available cash or committed facilities, or by issuance of new debt. Management maintains an active dialogue with S&P, as well as the Group's relationship banks, to ensure that any changes to the Group's financing and acquisition strategies are understood.

In May 2019, the Group issued a €500m bond under its Euro Medium-Term Note (EMTN) Programme, the proceeds of which were used to refinance the €500m bond that fell due on 24 September 2019. Following the refinancing, the Group cancelled, on a voluntary basis, £50m of available commitment under its RCF, reducing it from £600m to £550m. In August 2019 one of the two one-year extension options in the RCF was exercised and granted resulting in a new maturity date of 22 August 2024. Available commitments of £550m under the RCF together with unrestricted cash of £266.7m gives the Group combined headroom of £816.7m at 31 December 2019 (2018: £638.4m) to meet the maturity of the June 2020 \$50m term loan. The Group has no other maturities falling due in 2020.

All of the Group's bonds issued under its EMTN Programme contain a coupon step-up which increases the coupon payable by 1.25% in the event that the Group is downgraded to BB+ or below (sub-investment grade). The Group's bonds may be called by their investors at par in the event of a change of control of the Group. They may also be called within 120 days if the Group's debt is downgraded below investment grade, or if the rating is withdrawn and the rating agency confirms in writing, either publicly or to the Group or the Trustee, that the rating action occurred either wholly or in part due to a change of control.

(b) Credit risk

The group has no significant concentration of credit risk. Sales are typically low-value, high-volume, spreading the risk across a large number of customers and geographies. Policies are in place to ensure that credit sales are only made to customers with an appropriate credit history. The Group operates in some territories where there is increased exposure to trade credit risks and in those territories the Group puts in place appropriate measures to manage its credit risk exposure.

In order to protect the liquid assets and funding relationships of the Group, management aims to maintain banking relationships with counterparties that carry a long-term credit rating of at least A-. In countries where no banks are rated A- or above, balances are monitored monthly and kept to a minimum. In addition, funds held with all counterparties are subject to limits. All exposures are monitored and reported to the Treasury Committee each month. The Group also monitors the creditworthiness of its lenders to ensure available commitments under its facilities are available as needed.

At 31 December 2019 the Group had a total of £16.0m of cash held on bank accounts with banks rated below A- by S&P. The highest concentration with any single bank rated below A- was £3.1m.

(c) Market risk

Foreign exchange risk

The Group's worldwide operations generate profits and cash flows in foreign currencies. Sales and purchases are typically denominated in the currency of the country in which they are transacted, and the Group's cross-border procurement is considered insignificant. Sterling procurement and central costs mean that foreign currencies constitute more than 100% of Group adjusted operating profit at approximately 107%.

The Group's primary exposure to foreign exchange risk is in relation to the translation of assets and liabilities, and the Group aims to hold debt in currencies in proportion to its forecast foreign currency profits and investments. FX derivatives are used to manage foreign currency exposures in excess of £0.5m that are not covered by debt or assets in the same (or another highly correlated) currency, as long as it makes sense from an economic perspective to do so. The Treasury Committee monitors foreign exchange exposures on a monthly basis. Dealing in foreign exchange products is controlled by dealing mandates approved by the Treasury Committee and all FX transactions are covered by ISDA documentation.

The most significant foreign currency groups are euros and US dollars, which make up 41.7% and 34.9% of Group adjusted operating profit respectively.

At 31 December 2019 the Group's net debt was approximately 64% euro (2018: 64%), reflecting that it is the Group's principal cash flow exposure; and 36% US dollars (2018: 39%), reflecting the size of the US market and the Group's strong growth and investment in this region. The translation of the interest element of euro and US dollar debt provides a partial income statement offset to the translation of earnings.

The Group calculates the impact on the income statement and other comprehensive income of a 10% movement in foreign exchange rates. The Group's principal foreign currency exposure is the euro. A 10% movement in £/€ would result in a £16.0m increase/decrease (2018: £14.4m) in adjusted operating profit, offset by a £2.3m decrease/increase (2018: £2.1m) in interest payable. For US dollars, a 10% movement in £/\$ would result in a £12.2m increase/decrease (2018: £10.3m) in adjusted operating profit, offset by a £1.1m decrease/increase (2018: £1.6m) in interest payable.

Where possible, currency cash flows are used to settle liabilities in the same currency in preference to selling currency in the market.

Interest rate risk

The Group seeks to manage interest rate risk to ensure reasonable certainty of its interest charge while allowing an element of risk exposure consistent with the variability of its cash flows. Interest rate risk is managed by the use of fixed interest debt and interest rate derivatives, which are approved in advance by the Treasury Committee. The Group policy is to fix a minimum of 50% of its estimated future interest rate exposures (excluding pensions) for a minimum period of 12 months forward. The Treasury Committee reviews this exposure monthly.

A hypothetical 1.0% increase in euro interest rates would reduce the market value of the Group's bond liabilities by £45.9m at 31 December 2019 (2018: £51.7m). The income statement impact is £nil as changes in interest rates do not change the expected cash flows on the bonds.

The Group had outstanding bond debt issues at 31 December 2019 with a market value of £1,082.7m (2018: £1,146.6m). This exceeds the book value of £1,051.5m (2018: £1,120.1m) as a result of reductions in interest rates in Europe. There are no circumstances where the Group would be obliged to pay the fair market value. The Group could however decide to redeem some or all of its bonds early and the fair market value is indicative of the price that would be required to do so.

To manage its US dollar interest cost, the Group has entered into a low volatility Synthetic Borrowing Unit (SBU) instrument for \$335m that yields 1.90%. The SBU instrument effectively hedges the GBP/USD movement but at a lower cost of debt. As at 31 December 2019 the instrument had generated an interest benefit of £3.6m.

(d) Capital risk

The Group is committed to maintaining a debt/equity structure that allows continued access to a broad range of financing sources and sufficient flexibility to pursue commercial opportunities as they present themselves, without onerous financing terms and conditions. The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to support the Group's strategy. Capital consists of ordinary shares, retained earnings and non-controlling interests in the Group. Management monitors the return on capital as well as the level of dividends to ordinary shareholders.

(e) Treasury risk

The Group's treasury activities are governed by a treasury policy, which is reviewed and approved by the Board on an annual basis. The treasury policy covers all activities associated with managing the above risks. The policy requires that financial instruments are only utilised to manage known financial exposures and speculative derivative contracts are not entered into. The treasury policy requires that treasury must approve opening and closing of all bank accounts, and that funds transfers and other payments are only made in accordance with bank mandates. To ensure an appropriate control environment exists in the treasury function, duties are segregated between front and back office teams. In addition a number of controls are in place to protect against potential cyber security and other risks.

C2. Net debt

Closing net debt comprises:

	Notes	2019 £m	2018 £m
Current			
Cash and cash equivalents in the Consolidated Balance Sheet	C3	309.6	129.8
Other investments	C4	1.7	2.5
Fair value of debt-related derivatives		(0.3)	(10.5)
Bank and other short-term borrowings ¹		(84.6)	(507.1)
Lease liabilities	B4	(72.0)	(14.4)
Non-current			
Other investments	C4	0.1	—
Fair value of debt-related derivatives		(23.5)	(9.6)
Bank and other long-term borrowings ²		(1,059.3)	(716.8)
Lease liabilities	B4	(144.7)	(27.3)
Total net debt		(1,073.0)	(1,153.4)

1. Bank and other short-term borrowings consists of £nil bond debt (2018: £449.0m), £35.7m overdraft (2018: £28.9m), £37.7m term loan (2018: £nil), £6.4m other overseas loans (2018: £22.3m) and £4.8m bond accruals (2018: £6.9m).

2. Bank and other long-term borrowings consists of £1,051.5m bond debt (2018: £671.1m), £nil term loan (2018: £39.2m) and £7.8m other overseas loans (2018: £6.5m).

The currency split and cash flows of bank, other borrowings and debt-related derivatives are as follows:

	2019 £m	2018 £m
Pound sterling	38.6	33.0
Euro	712.3	793.6
US dollar	391.9	405.9
Other currencies	24.9	11.5
Carrying value	1,167.7	1,244.0
Interest	33.6	43.0
Undiscounted value	1,201.3	1,287.0
Analysis of undiscounted cash flows:		
Less than 1 year	96.3	529.6
Between 1 and 5 years	678.8	394.4
Over 5 years	426.2	363.0
Future minimum payments	1,201.3	1,287.0

Notes to the Financial Statements

continued

Reconciliation of net change in cash and cash equivalents to net debt:

	Opening 2019 ¹ £m	Cash flows £m	Non-cash (fair value changes) £m	Non-cash (foreign exchange and other) £m	Closing 2019 £m
Cash and cash equivalents in the Consolidated Balance Sheet	129.8	187.3	–	(7.5)	309.6
Other investments – loans and receivables	2.5	(0.7)	–	–	1.8
Fair value of debt-related derivatives	(20.1)	(2.0)	2.2	(3.9)	(23.8)
Bank and other short-term borrowings	(507.1)	488.8	(26.9)	(39.4)	(84.6)
Bank and other long-term borrowings	(716.8)	(429.4)	(1.2)	88.1	(1,059.3)
Lease liabilities	(41.7)	94.4	–	(269.4)	(216.7)
	(1,153.4)	338.4	(25.9)	(232.1)	(1,073.0)

1. Bank and other short/long-term borrowings have been restated at 31 December 2018 to reflect the short-term nature of the September 2019 €500m bond which was classified as long term.

Foreign exchange gain on debt amounted to £69.7m (2018: loss of £37.4m) for 2019. The gain primarily resulted from a weakening of the euro by 7 cents and also weakening of the US dollar by 5 cents. Included within the net decrease in cash and cash equivalents is £11.7m settlement paid in cash on debt-related foreign exchange forward contracts (2018: £5.6m).

Fair value is equal to carrying value for all elements of net debt with the exception of bond debt which has a carrying value of £1,051.5m (2018: £1,120.1m) and a fair value of £1,082.7m (2018: £1,146.6m).

C3. Cash and cash equivalents

Cash and cash equivalents include cash in hand, short-term bank deposits and other short-term highly liquid investments with original maturities of three months or less (and subject to insignificant changes in value). In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Cash at bank and in hand includes £9.0m (2018: £11.7m) of restricted cash. This cash is held in respect of specific contracts and can only be utilised in line with terms under the contractual arrangements.

Cash at bank and in hand also includes £45.6m (2018: £33.2m) of cash held in countries with foreign exchange regulations. This cash is repatriated to the UK where possible, if not required for operational purposes in country.

Fair value is equal to carrying value for all cash and cash equivalents.

The Group operates pooling arrangements whereby cash balances and overdrafts held within the same bank are offset to give a net balance which is included within cash and cash equivalents on the balance sheet. These cash and bank overdraft figures before netting are shown in the table below:

Offsetting financial assets and liabilities

	Gross amounts before offsetting £m	Gross amounts set off £m	Net amounts presented £m
At 31 December 2019			
Cash at bank and in hand	1,099.1	(859.6)	239.5
Short-term bank deposits	70.1	–	70.1
Cash and cash equivalents in the Consolidated Balance Sheet	1,169.2	(859.6)	309.6
Bank overdraft	(895.3)	859.6	(35.7)
Cash and cash equivalents in the Consolidated Cash Flow Statement	273.9	–	273.9
At 31 December 2018			
Cash at bank and in hand	679.5	(553.9)	125.6
Short-term bank deposits	4.2	–	4.2
Cash and cash equivalents in the Consolidated Balance Sheet	683.7	(553.9)	129.8
Bank overdraft	(582.8)	553.9	(28.9)
Cash and cash equivalents in the Consolidated Cash Flow Statement	100.9	–	100.9

Credit interest rates on bank balances range between (0.8)% and 10.5% and debit interest rates range between (0.4)% and 4.95%.

As far as it is practical to do so, cash balances are held centrally and are used first to repay borrowings under the Group's RCF before being placed on deposit.

C4. Other investments

Other investments held at year end mainly comprised term deposits maturing in more than three months from the date that the deposit was placed. The weighted average effective interest rate earned is 0.9% (2018: 0.0%) and the rate was fixed for one year (2018: one year). Fair value is equal to carrying value for all other investments.

Financial assets are denominated in the following currencies:

	2019 £m	2018 £m
– Pound sterling	1.6	2.4
– Other ¹	0.4	0.3
	2.0	2.7
Analysed as follows:		
Current portion	1.7	2.5
Non-current portion ¹	0.3	0.2
	2.0	2.7

1. Includes a direct investment of £0.2m (2018: £0.2m) in a solar energy company in the US. This investment is classified as available for sale.

None of the financial assets are either past due or impaired in 2019.

C5. Derivative financial instruments

Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at the balance sheet date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. At the inception of the transaction the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values of hedged items.

Certain financial instruments are not designated or do not qualify for hedge accounting. Typically the Group will not designate financial instruments for hedge accounting where a perfect or near perfect offset is expected between the change in value of assets and liabilities. Changes in the fair value of any derivative instruments in this category are immediately recognised in the income statement.

Where financial instruments are designated for hedge accounting they are designated as either fair value hedge, net investment hedge or cash flow hedge. When designating cross-currency swaps, the cost of hedging has been excluded from the relationship and any movement in the fair value related to the cost of hedging is deferred in equity and amortised over the life of the hedged item.

(a) Fair value hedge

These instruments are used to hedge exposure to changes in the fair value of recognised assets or liabilities. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(b) Net investment hedge

These instruments are used to hedge exposure on translation of net investments in foreign operations. Any gain or loss on the hedging instrument related to the effective portion of the hedge is recognised in other comprehensive income; the gain or loss related to the ineffective portion is recognised immediately in the income statement. In the event of disposal of a foreign operation, the gains and losses accumulated in other comprehensive income are recycled through the income statement.

(c) Cash flow hedge

These instruments are used to hedge a highly probable forecast transaction or a change in the cash flows of a recognised asset or liability. The portion of the gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income. Any ineffective portion is immediately recognised in the income statement. The gains or losses that are recognised in comprehensive income are transferred to the income statement in the same period in which the hedged cash flows affect the income statement. In the event that the hedged item occurs or is no longer expected to occur, accumulated gains or losses held in the cash flow hedge reserve are immediately recognised in the income statement. In the event that the hedged item is expected to occur but no longer meets the requirements of hedge accounting, accumulated gains or losses remain in other comprehensive income and are only recognised in the income statement when the forecast transaction occurs or is no longer expected to occur.

Cash flow hedge accounting has been applied to derivatives (marked as 'cash flow hedge' in the table on page 156) in accordance with IFRS 9. Where no hedge accounting has been applied, related derivatives have been marked as 'non-hedge'. Any ineffectiveness on the cash flow hedge is taken directly to finance costs. During the year there was a gain of £1.0m (2018: £nil) relating to ineffectiveness of net investment in foreign entity hedges and a loss of £(0.1)m (2018: £nil) from those derivatives in a cash flow hedge relationship. Cash flow hedge accounting has been applied to €67.7m of the €500m 2026 bond, hedging the changes in cash flow due to volatility in the GBP/EUR exchange rate. Cash flow hedge accounting has also been applied to the floating interest of the \$50m term loan maturing in 2020 that has been swapped to a fixed rate.

At the end of the year, the amount in comprehensive income related to cash flow hedge accounting was a loss of £0.5m (2018: £9.5m gain).

Notes to the Financial Statements

continued

Fair value estimation

All financial instruments held at fair value are classified by reference to the source of inputs used to derive the fair value. The following hierarchy is used:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices that are observable for the asset or liability, either directly as prices or indirectly through modelling based on prices;

Level 3 – inputs for the asset or liability that are not based on observable market data. Fair value is equal to carrying value for all instruments at level 3.

The Group uses the following methods to estimate fair value of its financial instruments:

Financial instrument	Hierarchy level	Valuation method
Financial assets traded in active markets	1	Current bid price
Financial liabilities traded in active markets	1	Current ask price
Long-term debt	1	Quoted market prices
Liquidity fund	1	Quoted market prices or dealer quotes for similar instruments
Interest rate/currency swaps	2	Market swap rates at the balance sheet date
Forward foreign exchange contracts	2	Forward exchange market rates at the balance sheet date
Borrowings not traded in active markets	2	Cash flows discounted at current market rates
Financial instruments not traded in active markets	2 or 3	Valuation assumptions based on market conditions at the balance sheet date
Trade payables and receivables	3	Nominal value less estimated credit adjustments
Other financial instruments	3	Variety of techniques including discounted cash flows

	Fair value assets 2019 £m	Fair value liabilities 2019 £m	Fair value assets 2018 £m	Fair value liabilities 2018 £m
Interest rate swaps (level 2):				
– non-hedge	–	(3.1)	4.5	(16.9)
– cash flow hedge	0.1	(20.5)	4.9	–
– net investment hedge	7.6	(9.1)	–	(14.2)
Foreign exchange swaps (level 2):				
– non-hedge	0.1	(0.1)	0.2	(1.1)
	7.8	(32.8)	9.6	(32.2)
Analysed as follows:				
Current portion	0.2	(0.5)	4.2	(15.8)
Non-current portion	7.6	(32.3)	5.4	(16.4)
	7.8	(32.8)	9.6	(32.2)

The effective nominal value of foreign exchange swaps is £19.4m (2018: £30.0m) and foreign exchange forwards is £nil (2018: £2.3m).

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis, into relevant maturity groupings based on the remaining period to the contractual maturity date at the balance sheet date.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 31 December 2019					
Cross-currency interest rate swaps:					
– outflow	(20.0)	(11.7)	(337.6)	(59.2)	(428.5)
– inflow	11.1	3.2	297.0	58.2	369.5
Foreign exchange swaps:					
– outflow	(17.1)	–	–	–	(17.1)
– inflow	17.1	–	–	–	17.1
Net outflow	(8.9)	(8.5)	(40.6)	(1.0)	(59.0)
At 31 December 2018					
Cross-currency interest rate swaps:					
– outflow	(72.4)	(19.8)	(33.5)	(325.9)	(451.6)
– inflow	53.7	11.3	8.7	308.5	382.2
Foreign exchange swaps:					
– outflow	(65.4)	–	–	–	(65.4)
– inflow	63.7	–	–	–	63.7
Foreign exchange forwards:					
– outflow	(8.1)	–	–	–	(8.1)
– inflow	8.1	–	–	–	8.1
Net outflow	(20.4)	(8.5)	(24.8)	(17.4)	(71.1)

C6. Analysis of bank and bond debt

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are classified as current liabilities unless the Group has a continuing right to defer settlement of the liability for at least 12 months after the balance sheet date.

The Group's bank debt comprises:

	Facility amount £m	Drawn at year end £m	Headroom £m	Interest rate at year end %
Non-current				
£550m RCF due August 2024	550.0	–	550.0	0.14
Current				
\$50m term loan due June 2020	37.7	37.7	–	2.17
Average cost of bank debt at year-end rates	587.7	37.7	550.0	0.27

In August 2019 the Group extended its main revolving credit facility (RCF) until August 2024 with a one-year extension option. In November 2019 the amount of the RCF was reduced from £600m to £550m. At the year end the RCF was undrawn.

In addition, the Group has a term loan of \$50m. As at 31 December 2019 this was fully drawn. The effective cost of borrowing on this facility is 2.17%.

Medium-term notes and bond debt comprises:

	Bond interest coupon	Effective hedged interest rate
Non-current		
€350m bond due October 2021	Fixed 3.25%	Fixed 3.54%
€400m bond due November 2024	Fixed 0.95%	Fixed 2.25%
€500m bond due May 2026	Fixed 0.875%	Fixed 1.54%
£1.3m perpetual debentures	Fixed 5.00%	Fixed 5.00%
£0.3m perpetual debentures	Fixed 4.50%	Fixed 4.50%
Average cost of bond debt at year-end rates		2.33%

The effective hedged interest rate reflects the interest rate payable after the impact of interest due from currency swaps. The Group's hedging strategy is to hold foreign currency debt in proportion to foreign currency profit and cash flows, which are mainly in euro and US dollar. As a result, the Group has swapped a proportion of the bonds it has issued into US dollars, thus increasing the effective hedged interest rate.

On 30 May 2019, the Group issued a new €500m bond at a coupon of 0.875% under its EMTN Programme. Some of the proceeds were swapped into US dollars from the issue date until maturity. The rate on this US dollar swap is fixed at 3.16%.

The Group considers the fair value of other current liabilities to be equal to the carrying value.

Notes to the Financial Statements

continued

C7. Interest payable and similar charges

	Notes	2019 £m	2018 £m
Hedged interest payable on medium-term notes issued ¹		23.8	28.6
Interest payable on bank loans and overdrafts ¹		2.7	3.2
Interest payable on RCF ¹		3.6	2.3
Interest payable on foreign exchange swaps		16.1	19.3
Interest payable on leases	B4	8.1	1.5
Amortisation of discount on provisions		0.2	0.3
Fair value loss on other derivatives ²		2.3	—
Total interest payable and similar charges		56.8	55.2

1. Interest expense on financial liabilities held at amortised cost.

2. Fair value loss on other derivatives relates to \$335m SBU entered into since February 2019 (\$170m in February 2019 and \$165m in July 2019) which do not qualify for hedge accounting. The instrument provides an annual interest benefit of 1.9% of the outstanding principal and had a fair value loss of £2.3m excluding interest accrual at the end of the year.

C8. Interest receivable

	Notes	2019 £m	2018 £m
Bank interest		4.1	2.0
Interest receivable on foreign exchange swaps		5.1	7.5
Fair value gain on hedge ineffectiveness ¹		0.8	0.4
Interest on net defined benefit asset	A10	0.7	7.7
Total interest receivable		10.7	17.6

1. Fair value gain on hedge ineffectiveness includes £4.1m interest of the net investment hedge accounting of the €400m bond hedge reported in the interest payable of foreign exchange swaps offset by £0.2m hedge ineffectiveness (2018: £17.9m loss). Fair value gain on hedge ineffectiveness also includes £3.1m loss on retranslation of US dollar deposits which were held to hedge the Florida Pest Control acquisition (2018: £18.3m gain)

C9. Operating cash and Free Cash Flow

	2019 £m	2018 ¹ £m
Operating profit/(loss)	369.4	(96.1)
Adjustments for:		
– Depreciation of property, plant and equipment	127.3	131.0
– Depreciation of leased assets	78.9	—
– Amortisation and impairment of intangible assets (excluding computer software)	85.2	61.6
– Amortisation and impairment of computer software	13.6	16.1
– Other non-cash items	(4.3)	5.1
– Net gain on disposals	(103.8)	—
– Pension settlement (non-cash)	—	341.6
Changes in working capital (excluding the effects of acquisitions and exchange differences on consolidation):		
– Inventories	(3.6)	(10.9)
– Contract costs	(6.3)	(6.9)
– Trade and other receivables	(32.4)	1.9
– Contract assets	(5.8)	(16.3)
– Trade and other payables and provisions	20.2	18.1
– Contract liabilities	16.9	9.9
Cash generated from operating activities before special pension contributions	555.3	455.1
Special pension contributions	(1.1)	(1.1)
Cash generated from operating activities	554.2	454.0
Add back: special pension contributions	1.1	1.1
Purchase of property, plant and equipment	(140.1)	(147.2)
Purchase of intangible fixed assets	(30.8)	(22.9)
Leased property, plant and equipment	(74.9)	(16.3)
Proceeds from sale of property, plant and equipment	3.2	2.9
Dividends received from associates	30.4	11.9
Operating cash flow	343.1	283.5
Interest received	10.8	7.7
Interest paid	(58.9)	(53.0)
Income tax paid	(43.2)	(45.1)
Special pension contributions	(1.1)	(1.1)
Free Cash Flow from continuing operations	250.7	192.0

1. The Group has initially applied IFRS 16 at 1 January 2019. Under the transition method chosen comparative information is not restated.

D. Other

D1. Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's Financial Statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid.

	2019 £m	2018 £m
2017 final dividend paid – 2.74p per share	–	50.2
2018 interim dividend paid – 1.311p per share	–	24.0
2018 final dividend paid – 3.16p per share	58.1	–
2019 interim dividend paid – 1.51p per share	27.7	–
	85.8	74.2

An interim dividend of 1.51p per share was paid on 11 September 2019 amounting to £27.7m. A final dividend in respect of 2019 of 3.64p (2018: 3.16p) per share, amounting to £67.3m (2018: £58.2m), is to be proposed at the Annual General Meeting on 13 May 2020. These Financial Statements do not reflect this recommended dividend.

D2. Share capital

The Company's share capital is made up of the shares that have been issued to its members, whether on, or subsequent to, its incorporation. At the year end the Company's issued share capital consisted of ordinary shares of one pence each, with one voting right per share, as detailed below.

During the year six million new shares were issued in relation to employee share schemes. The Company does not hold any shares in treasury.

	2019 £m	2018 £m
Issued and fully paid		
At 31 December – 1,849,332,965 shares (2018: 1,843,332,965)	18.5	18.4

D3. Contingent liabilities

The Group has contingent liabilities relating to guarantees in respect of leasehold properties, pensions, third parties, environmental issues, tax and litigation. The possibility of any significant outflows in respect of these items is considered to be remote.

D4. Related party transactions

Subsidiaries

Related party transactions and outstanding balances between subsidiaries within the Group are eliminated in the preparation of the Consolidated Financial Statements and accordingly are not disclosed in this note.

Key management personnel

The Group's strategy and policy are managed by the Executive Leadership Board (Executive Directors and senior management as shown on pages 64 to 67). Their compensation and the compensation payable to the Non-Executive Directors is shown below:

	2019 £m	2018 £m
Salaries and other short-term employee benefits	7.0	6.8
Post-employment benefits	0.3	0.5
Share-based payments	1.7	2.4
	9.0	9.7

Joint ventures and associate entities

The Group operates in a number of joint ventures and associate entities as indicated on pages 165 to 170 where a percentage shareholding is shown. All transactions between these entities and the Group were transacted at arm's length during the ordinary course of business and have been eliminated on consolidation.

The value of transactions and outstanding balances with joint ventures and associate entities are shown below.

	Transaction values for the year ended 31 December		Balance outstanding as at 31 December	
	2019 £m	2018 £m	2019 £m	2018 £m
Sales of goods and services	6.8	14.5	–	1.4
Purchase of goods and services	–	7.5	–	0.5

Pension scheme

The Group bears some costs of administration and independent pension advice of the Rentokil Initial 2015 Pension Scheme. The total amount of costs in the year ended 31 December 2019 was £0.3m (2018: £1.5m) of which £0.3m (2018: £0.5m) was recharged to the Scheme. At 31 December 2019, £0.1m (2018: £nil) remained outstanding.

D5. Post balance sheet events

There were no significant post balance sheet events affecting the Group since 31 December 2019.

Notes to the Financial Statements

continued

E. Alternative Performance Measures

The Group uses a number of measures to present the financial performance of the business which are not GAAP measures as defined under IFRS. Management believes these measures provide valuable additional information for users of the Financial Statements in order to understand the underlying trading performance. The Group's internal strategic planning process is also based on these measures and they are used for incentive purposes. They should be viewed as complements to, and not replacements for, the comparable GAAP measures.

Constant exchange rates (CER)

Given the international nature of the Group's operations, foreign exchange movements can have a significant impact on the reported results of the Group when they are translated into sterling (the functional currency of the Group). In order to help understand the underlying trading performance of the business, often revenue and profit measures are presented at CER. CER is calculated by translating current year reported numbers at the full year average exchange rates for the prior year, in order to give management and other users of the accounts better visibility of underlying trading performance against the prior period. The major exchange rates used are £/\$ FY 2019 1.2790 (FY 2018 1.3321) and £/€ FY 2019 1.1419 (FY 2018 1.1288). Comparisons are with the year ended 31 December 2018 (2018) unless otherwise stated.

Ongoing Revenue and Ongoing Operating Profit

Ongoing Revenue and Ongoing Operating Profit represent the performance of the continuing operations of the Group (including acquisitions) after removing the effect of disposed or closed businesses. Ongoing Operating Profit is an adjusted measure and is presented before amortisation and impairment of intangible assets (excluding computer software), one-off items (see below) and gain or loss on disposal of businesses.

Ongoing measures enable the users of the accounts to focus on the performance of the businesses retained by the Group and that will therefore contribute to future performance. Ongoing Revenue and Ongoing Operating Profit are presented at CER unless otherwise stated. A reconciliation of Ongoing Revenue and Ongoing Operating Profit measures to the equivalent GAAP measure is provided in the following table and in the segmental analysis in Note A1.

Adjusted profit and earnings per share measures

Adjusted profit measures are used to give management and other users of the accounts a clear understanding of the underlying profitability of the business over time. Adjusted profit measures are calculated by adding the following items back to the equivalent GAAP profit measure:

- ❶ Amortisation and impairment of intangible assets (excluding computer software)
- ❷ One-off items (operating and associates) – including net gain on disposals
- ❸ Net interest adjustments

Intangible assets (excluding computer software) are recognised on acquisition of businesses which, by their nature, can vary by size and amount each year. As a result, amortisation of intangibles is added back to assist with understanding the underlying trading performance of the business and to allow comparability across regions and categories.

One-off items are significant expenses or income that will have a distortive impact on the underlying profitability of the Group. Typical examples are costs related to the acquisition of businesses (including aborted acquisitions), gain or loss on disposal or closure of a business, material gains or losses on disposal of fixed assets, adjustments to legacy property-related provisions (vacant property and environmental liabilities), and payments or receipts as a result of legal disputes. Similar adjustments where appropriate are also made to the share of profits from associates.

Other non-cash gains and losses that can cause material fluctuations and distort understanding of the performance of the business are net interest on pension schemes, interest fair value adjustments and the excess IFRS 16 interest above the operating profit benefit reported in the year. These adjustments are made to aid year-on-year comparability.

Adjusted earnings per share is calculated by dividing adjusted profit from continuing operations attributable to equity holders of the Company by the weighted average number of ordinary shares in issue. Note A2 shows the adjustments made in arriving at adjusted profit from continuing operations attributable to equity holders of the Company.

A reconciliation of non-GAAP measures to the comparable GAAP equivalents is provided below at both AER and CER:

	2019 AER £m	2019 CER £m	2018 £m	% change	
				AER	CER
Ongoing Revenue	2,676.2	2,644.5	2,434.9	9.9	8.6
Revenue – disposed and closed businesses ¹	38.2	38.3	37.4	2.2	2.3
Revenue	2,714.4	2,682.8	2,472.3	9.8	8.5
Ongoing Operating Profit	368.1	365.5	330.7	11.3	10.5
Operating Profit – disposed and closed businesses	(2.7)	(2.7)	(1.4)	(86.3)	(86.3)
Adjusted operating profit	365.4	362.8	329.3	11.0	10.2
One-off items – operating	(14.6)	(14.4)	(22.2)	34.2	35.5
Amortisation and impairment of intangible assets	(85.2)	(83.8)	(61.6)	(38.7)	(36.0)
Operating profit	265.6	264.6	245.5	8.2	7.8
Pension settlement (non-cash)	–	–	(341.6)	–	–
Net gain on disposals	103.8	105.3	–	–	–
Share of profit from associates (net of tax)	15.2	14.9	19.6	(22.4)	(24.1)
Net interest payable (excluding interest adjustments)	(42.1)	(41.8)	(45.7)	7.9	8.4
Net interest adjustments	(4.0)	(3.9)	8.1	–	–
Profit before tax	338.5	339.1	(114.1)	–	–
Net interest adjustments	4.0	3.9	(8.1)	–	–
One-off items – operating	14.6	14.4	22.2	34.2	35.5
One-off items – associates ²	2.4	2.4	4.8	(50.0)	(50.0)
Net gain on disposals	(103.8)	(105.3)	–	–	–
Pension settlement (non-cash)	–	–	341.6	–	–
Amortisation and impairment of intangible assets	85.2	83.8	61.6	(38.2)	(36.0)
Adjusted Profit Before Tax	340.9	338.3	308.0	10.7	9.8
Basic earnings per share	15.33p	15.37p	(5.35)p	–	–
Basic adjusted earnings per share	14.43p	14.27p	13.07p	10.4	9.2

1. Includes revenue of £10.7m (2018: £13.9m) from product sales by the Group to CWS-boco International GmbH.

2. Rentokil Initial Group's post-tax share of one-off items and amortisation of intangibles of the CWS-boco International GmbH associated undertaking.

Organic Revenue measures

Acquisitions are a core part of the Group's growth strategy. Organic Revenue growth measures are used to help understand the underlying performance of the Group. Organic Revenue growth represents the growth in Ongoing Revenue excluding the effect of businesses acquired during the year. Acquired businesses are included in organic measures in the year following acquisition, and the comparative period is adjusted to include an estimated full-year performance for growth calculations (pro-forma revenue).

	Europe		UK & ROW		Asia		North America		Pacific		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
2018 Ongoing Revenue (as reported)	667.3	–	437.2	–	211.1	–	934.2	–	185.1	–	2,434.9	–
Pro-forma revenue from 2018 and 2019 acquisitions	15.6	2.3	6.5	1.5	13.5	6.4	64.4	6.9	0.7	0.3	100.7	4.1
Organic growth	32.1	4.8	21.1	4.8	9.8	4.7	41.7	4.5	4.2	2.3	108.9	4.5
2019 Ongoing Revenue (as reported)	715.0	7.1	464.8	6.3	234.4	11.1	1,040.3	11.4	190.0	2.6	2,644.5	8.6

	Pest Control		Hygiene		Protect & Enhance		Total	
	£m	%	£m	%	£m	%	£m	%
2018 Ongoing Revenue (as reported)	1,534.1	–	516.7	–	384.1	–	2,434.9	–
Pro-forma revenue from 2018 and 2019 acquisitions	91.6	5.9	7.9	1.5	1.2	0.3	100.7	4.1
Organic growth	74.4	4.9	22.2	4.3	12.3	3.2	108.9	4.5
2019 Ongoing Revenue (as reported)	1,700.1	10.8	546.8	5.8	397.6	3.5	2,644.5	8.6

Notes to the Financial Statements

continued

Regional analysis

	Ongoing Revenue 2019		Change from FY 2018		Ongoing Operating Profit 2019		Change from FY 2018	
	AER £m	CER £m	AER %	CER %	AER £m	CER £m	AER %	CER %
France	310.4	314.0	3.4	4.6	46.0	46.5	(0.4)	0.7
Benelux	95.3	96.4	5.0	6.2	27.9	28.2	6.1	7.3
Germany	107.5	108.4	11.7	12.6	33.4	33.6	14.8	15.6
Southern Europe	134.6	136.1	3.4	4.6	22.2	22.5	16.3	17.7
Latin America	57.7	60.1	15.7	20.5	6.6	7.3	(4.9)	5.7
Total Europe	705.5	715.0	5.7	7.1	136.1	138.1	6.6	8.3
UK & Ireland	305.6	305.9	5.8	6.0	65.6	66.4	10.1	11.4
Rest of World	156.6	158.9	5.5	7.0	35.7	35.9	4.8	5.5
UK & Rest of World	462.2	464.8	5.7	6.3	101.3	102.3	8.2	9.3
Asia	240.2	234.4	13.8	11.1	24.9	24.2	14.3	11.1
North America	1,082.5	1,040.3	15.9	11.4	153.4	147.4	20.0	15.3
Pacific	185.8	190.0	0.4	2.6	38.6	39.4	0.4	2.5
Central and regional overheads	—	—	—	—	(78.5)	(78.4)	(10.0)	(9.9)
Restructuring costs	—	—	—	—	(7.7)	(7.5)	(6.0)	(4.3)
Ongoing operations	2,676.2	2,644.5	9.9	8.6	368.1	365.5	11.3	10.5
Disposed businesses	38.2	38.3	2.2	2.3	(2.7)	(2.7)	(86.3)	(86.3)
Continuing operations	2,714.4	2,682.8	9.8	8.5	365.4	362.8	11.0	10.2

Category analysis

	Ongoing Revenue 2019		Change from FY 2018		Ongoing Operating Profit 2019		Change from FY 2018	
	AER £m	CER £m	AER %	CER %	AER £m	CER £m	AER %	CER %
Pest Control	1,734.8	1,700.1	13.1	10.8	310.1	305.4	13.4	11.6
— Growth	1,483.7	1,451.0	13.0	10.5	275.8	271.5	13.7	12.0
— Emerging	251.1	249.1	13.6	12.1	34.3	33.9	10.4	8.8
Hygiene	543.7	546.8	5.2	5.8	96.8	97.3	7.5	8.1
Protect & Enhance	397.7	397.6	3.5	3.5	47.4	48.7	3.7	6.6
Central and regional overheads	—	—	—	—	(78.5)	(78.4)	(10.0)	(9.9)
Restructuring costs	—	—	—	—	(7.7)	(7.5)	(6.0)	(4.3)
Ongoing operations	2,676.2	2,644.5	9.9	8.6	368.1	365.5	11.3	10.5
Disposed businesses	38.2	38.3	2.2	2.3	(2.7)	(2.7)	(86.3)	(86.3)
Continuing operations	2,714.4	2,682.8	9.8	8.5	365.4	362.8	11.0	10.2

Operating Margin

Operating Margin is calculated by dividing Ongoing Operating Profit by Ongoing Revenue, expressed as a percentage. Net Operating Margin by region and category is shown in the tables below (on a trailing 12-month basis):

	2019 %	2018 %	Variance % points
France	14.8	15.4	(0.6)
Benelux	29.3	29.0	0.3
Germany	31.0	30.2	0.8
Southern Europe	16.5	14.7	1.8
Latin America	12.1	13.8	(1.7)
Total Europe	19.3	19.1	0.2
UK & Ireland	21.7	20.6	1.1
Rest of World	22.6	22.9	(0.3)
UK & Rest of World	22.0	21.4	0.6
Asia	10.3	10.3	–
North America	14.2	13.7	0.5
Pacific	20.7	20.8	(0.1)
Ongoing operations¹	13.8	13.6	0.2
Disposed businesses	(6.9)	(3.8)	(3.1)
Continuing operations¹	13.5	13.3	0.2

	2019 %	2018 %	Variance % points
Pest Control	18.0	17.8	0.2
– Growth	18.7	18.5	0.2
– Emerging	13.6	14.1	(0.5)
Hygiene	17.8	17.4	0.4
Protect & Enhance	12.3	11.9	0.4
Ongoing operations¹	13.8	13.6	0.2
Disposed businesses	(6.9)	(3.8)	(3.1)
Continuing operations¹	13.5	13.3	0.2

1. Operating Margin for ongoing operations and continuing operations is calculated after central and regional overheads and restructuring costs.

Free Cash Flow

The Group aims to generate sustainable cash flow (Free Cash Flow) in order to support its acquisition programme and to fund dividend payments to shareholders. Free Cash Flow is measured as net cash from operating activities, adjusted for cash flows related to the purchase and sale of property, plant, equipment and intangible fixed assets, and dividends received from associates. These items are considered by management to be non-discretionary, as continued investment in these assets is required to support the day-to-day operations of the business. A reconciliation of Free Cash Flow from net cash from operating activities is provided in the table below:

	2019 AER £m	2018 AER £m
Net cash from operating activities	462.9	363.6
Purchase of property, plant, equipment and intangible fixed assets	(170.9)	(170.1)
Leased property, plant and equipment	(74.9)	(16.3)
Proceeds from sale of property, plant, equipment and software	3.2	2.9
Dividends received from associates	30.4	11.9
Free Cash Flow	250.7	192.0

Notes to the Financial Statements

continued

Free Cash Flow conversion

Free Cash Flow conversion is calculated by dividing Adjusted Free Cash Flow by Adjusted Profit from continuing operations attributable to equity holders of the Company (further adjusted for any post-tax profits and one-offs from the CWS-boco International GmbH associate), expressed as a percentage. Adjusted Free Cash Flow is measured as Free Cash Flow adjusted for one-off items – operating and product development additions.

	2019 AER £m	2018 AER £m
Adjusted profit after tax from continuing operations attributable to equity holders of the Company	266.8	240.7
Share of profit of CWS-boco International GmbH associate (net of tax)	(7.0)	(12.1)
One-off items – associates	(2.4)	(4.8)
	257.4	223.8
Free Cash Flow from continuing operations	250.7	192.0
Dividend received from CWS-boco International GmbH	(26.4)	(8.5)
One-off items – operating	23.9	22.2
Product development additions	5.6	5.2
	253.8	210.9
Free Cash Flow conversion	98.6%	94.2%

Effective Tax Rate

Effective Tax Rate is calculated by dividing adjusted income tax expense by adjusted profit before income tax, expressed as a percentage. The measure is used by management to assess the rate of tax applied to the Group's Adjusted Profit Before Tax from continuing operations.

	Notes	2019 AER £m	2019 CER £m	2018 £m
Unadjusted income tax expense/(credit)	A12	54.7	54.3	(15.8)
Tax adjustments on:				
Amortisation and impairment of intangible assets (excluding computer software)		19.6	19.3	15.4
One-off items – operating		(1.1)	(1.1)	4.3
Pension settlement		–	–	64.8
Net interest adjustments		0.6	0.6	(1.6)
Adjusted income tax expense (a)		73.8	73.1	67.1
Adjusted profit before income tax (b)		340.9	338.3	308.0
Effective Tax Rate (a/b)		21.6%	21.6%	21.8%

Related Undertakings

Subsidiaries and other associated undertakings at 31 December 2019

Subsidiaries:

Company name	Share class	% held by Group companies
Australia		
Unit A1, Lidcombe Business Park, 3-29 Birnie Avenue 2141 Australia		
Ant-Eater Environmental Services Pty Limited	Ordinary	100%
Cannon Hygiene Australia Pty Limited	Ordinary	100%
Copes Pest Control Pty Limited	Ordinary	100%
Green Fingers Plant Hire Pty Limited	Ordinary	100%
Knock Out National Pty Limited	Ordinary	100%
Knock Out Pest Control Pty Limited	Ordinary	100%
Pest Away Australia Pty Limited	Ordinary	100%
Rentokil Australia Pty Limited	Ordinary	100%
Rentokil Initial Asia Pacific Pty Limited	Ordinary	100%
Rentokil Initial Pty Limited	Ordinary	100%
Rentokil Pest Control (QLD) Pty Limited	Ordinary	100%
Rentokil Pest Holdings Pty Limited	Ordinary	100%
Rentokil Pest Services Pty Limited	Ordinary	100%
	Ordinary-C	100%
	Ordinary-D	100%
Rentokil Pty Limited	Ordinary	100%
	Preference	100%
Samson Hygiene Services Pty Limited	Ordinary	100%
Austria		
Brown-Boveri-Straße 8/2/8, 2351, Wiener Neudorf, Austria		
Rentokil Initial GmbH	Ordinary	100%
Bahamas		
Corporate Services International, 308 East Bay Street, Nassau, PO Box N-7527, Bahamas		
Rentokil Initial (Bahamas) Limited	Ordinary	100%
5th Terrace Centreville, PO Box N-1388 Nassau, New Providence, Bahamas		
Tropical Exterminators Limited	Common	100%
Tropical Exterminators (Holdings) Limited	Common	100%
Barbados		
One Welches, Welches St. Thomas, Barbados		
Rentokil Initial (Barbados) Limited	Ordinary	100%
Belgium		
Ingberthoeveweg, 17, Aartselaar 2630, Belgium		
Ambius N.V.	Ordinary	100%
Rentokil N.V.	Ordinary	100%
Brazil		
Estrado de Gabinal, 957, Bairro da Freguesia Rio de Janeiro, CEP 22760-151, Brazil		
Asa Rio Saneamento Ambiental Limitada	Ordinary	100%
Avenida Ceci 348 Predio Anexo, Tamboré, São Paulo, Brazil		
Asseio Saneamento Ambiental Limitada	Ordinary	100%
Rua Professor José Vieira de Mendonça, 770 Sala 308, Belo Horizonte, Estado de Minas Gerais, Brazil		
Ecovec Comércio e Licenciamento de Tecnologias Ltda	Ordinary	100%
Rua Marques Amorim, 99, Boa Vista, Pernambuco, Recife, CEP 50070-355, Brazil		
F Genes & Cia Limitada	Ordinary	100%
SHC/Norte, Comercio Local, Quadra 115, Bloco A, Loja 45 S Subsolo 49 S, Asa Norte, Brazil		
MP – Saneamento Ambiental Limitada	Ordinary	100%

Company name	Share class	% held by Group companies
Rua Vitor Valpirio, 789 Bairro Anchieta, Porto Alegre, Rio Grande Do Sul, CEP 90200-230, Brazil		
Multicontrol Control De Pragas E Servicos Ltda	Ordinary	100%
Brunei		
Unit D1 & D1-1 Block D, Bangunan Hj Lajim & Anak-anak, Kg Kiarong Bandar Seri Begawan Brunei Darussalam, BE1318, Brunei Darussalam		
Rentokil Initial (B) Sdn Bhd	Ordinary	90%
Canada		
3325 North Service Road, Burlington, ON L7N 3G2, Canada		
Direct Line Sales Limited	Class A	100%
	Class B	100%
8699 Escarpment Way, Milton, ON L9T 0J5, Canada		
Residex Canada Inc.	Common	100%
Suite 900, 1959 Upper Water Street, Halifax, NS B3J 2X2, Canada		
Rentokil Canada Corporation	Class A	100%
	Class B	100%
Chile		
Galvarino 8481, Bodega 3, Quilicura, Santiago, Chile		
Comercializadora de Insumos y Servicios Mauco Limitada	Social Rights	100%
Av. Balmaceda No 1189, La Serena, Chile		
Control de Plagas Higalco Y Rodriguez Limitada	Ordinary	100%
Lote Numero 1, Cancha de Rescodo, Sagrada Familia, Curico, Chile		
Fumigaciones del Maule Limitada	Social Rights	100%
El Salto 4001, piso 9, Huechuraba, Santiago, Chile		
Comercial e Industrial Premasec Limitada	Social Rights	100%
Fox Sanidad Ambiental y Compania Limitada	Share Rights	100%
Rentokil Initial Chile SpA	Ordinary	100%
Vargas Fontecilla 4646, Quinta Normal, Santiago, Limache 3253, depto. 1-18, El Salto, Viña del Mar, Chile		
Sociedad Comercial Cleantech SpA	Ordinary	100%
Colombia		
Calle 33, No 56 36 Bello, Antioquia, Colombia		
Fumigax SAS	Ordinary	100%
Calle 93# 11A – 28 office 303, Bogotá, Colombia		
Rentokil Initial Colombia SAS	Common	100%
Calle 169 # 19 A 26, Bogotá, Colombia		
Vida Fresh Limitada	Ordinary	100%
Calle 73 No 69 K 36, Colombia		
Excel Gestion Ambiental SAS	Ordinary	100%
Costa Rica		
Avenida 18, calles 17 y 19, edificio 47, Barrio Luján, San José, Costa Rica		
Fumigadora Control Tecnico De Plagas S.A.	Common	100%

Related Undertakings continued

Company name	Share class	% held by Group companies
Curaçao		
Parke Comercial Korsau, A 24 Veeris, 102077, Curaçao		
Chuchubi Pest Control N.V.	Ordinary	100%
Dr. MJ Hugenholtz weg 25, Curaçao		
Sanicare B.V.	Ordinary	100%
Czech Republic		
Praha 2, Vyšehradská 1349/2, Prague, PSČ 12800, Czech Republic		
Rentokil Initial s.r.o.	Ordinary	100%
Denmark		
Paul Bergsøes Vej 22, 2600 Glostrup, Denmark		
Rentokil Initial A/S	Ordinary	100%
Dominican Republic		
1125 Berkshire Blvd, Suite 150, Reading, PA 19610, United States		
Oliver Exterminating Dominicana Corp.	Common	100%
Estonia		
Turi Str. 3/1, 11313, Tallinn, Estonia		
Rentokil OÜ	Ordinary	100%
El Salvador		
Avenida Calzada Guarda Barranco Urbanizacion, Lomas de Altamira, #14 Pasaje Clarineros, Central America, El Salvador		
Sagrip SA de C.V.	Ordinary	100%
Fiji		
Lot 15, Kauga Road, Laucala Beach Estate, Suva, Fiji Islands, Fiji		
Rentokil Initial Limited	Ordinary	100%
Finland		
Valuraudankuja 3, 00700 Helsinki, Finland		
Rentokil Initial Oy	Ordinary	100%
France		
259, Rue de la République, 76120 Le Grand Quevilly, France		
Agronet SAS	Ordinary	100%
6 Rue Livio, 67100 Strasbourg, France		
CAFI SAS	Ordinary	100%
CAWE FTB Group SAS	Ordinary	100%
34, rue du Général Mailleret, 94400 Joinville, Vitry-sur-Seine, France		
Mediclène SAS	Ordinary	100%
13-27 avenue Jean Moulin, 93240 Stains, France		
Ambius SAS	Ordinary	100%
Rentokil Initial Environmental Services SAS	Ordinary	100%
Rentokil Initial SAS	Ordinary	100%
145, rue de Billancourt, 92100 Boulogne Billancourt, France		
IH Services SAS	Ordinary	100%
Initial SAS	Ordinary	100%
Rentokil Initial Holdings (France) SA	Ordinary	100%
SCI Gravigny	Ordinary	100%
SCI Vargan	Ordinary	100%
Z.A. des Quatre Chemins, BP 21, 95540 Mery-sur-Oise, France		
Technivap SAS	Ordinary	100%

Company name	Share class	% held by Group companies
French Guiana		
PAE de Degrad des cannes, Remire-Montjoly, 97354, French Guiana		
Rentokil Initial Guyane Sari	Ordinary	100%
Germany		
An der Ziegelei, 47 27383, Schreeßel-Westerholz, Germany		
S & A Service und Anwendungstechnik GmbH	Ordinary	100%
S & A Vertriebs GmbH	Ordinary	100%
Heuesch 1, 49808 Lingen (Ems), Germany		
Mc Clean Küchenabluftservice GmbH	Ordinary	100%
Rentokil Holdings GmbH	Ordinary	100%
Rentokil Initial GmbH & Co. KG	Ordinary	100%
Rentokil Initial Beteiligungs GmbH	Ordinary	100%
Piderits Bleiche 11, 33689, Bielefeld, Germany		
Medentex GmbH	Ordinary	100%
Rentokil Dental GmbH	Ordinary	100%
Greece		
7 Aristotelous Street, Tavros, Athens 177 78, Greece		
Rentokil Initial Hellas EPE	Ordinary	100%
Guadeloupe		
7 Allée des Papillon, Dothemare, 97139 Abymes, Guadeloupe		
Rentokil Initial Guadeloupe Sari	Ordinary	100%
Guernsey		
PO Box 34, St Martin's House, St Peter Port GY1 4AU, Guernsey		
Felcourt Insurance Company Limited	Ordinary	100%
Guyana		
Lot 8, Charles and Drysdale Streets, Charlestown, Georgetown, Guyana		
Rentokil Initial Guyana Limited	Ordinary	100%
Guatemala		
9 Av. 39-97, Zona 8, Ciudad Guatemala, Guatemala		
Servicios Agrícolas Profesionales S.A.	Ordinary	100%
Honduras		
Departamento de Cortes, San Pedro Sula, Honduras		
Sagrip Honduras S.A.	Nominative	100%
Hong Kong		
23/F Westin Centre, 26 Hung To Rd, Kwun Tong, Hong Kong		
Rentokil Hong Kong Investment Limited	Ordinary	100%
Rentokil Initial Hong Kong Limited	Ordinary	100%
India		
2nd floor, Narayani, Ambabai Temple Compound, Aarey Road, Goregaon (West), Mumbai 400062, India		
Rentokil Initial Hygiene India Private Limited	Ordinary	100%
Villa No.3, Crescent Village, Candolim, Goa, 403515, India		
PCI Pest Control Private Limited	Ordinary	57%
Ground Floor, Gala No.4, Bldg No.18B, Sagedpool, Andheri Kuria Road, Andheri East, Mumbai, Maharashtra 400072, India		
Corporate Millennium Hygiene Solutions Private Limited	Ordinary	100%

Company name	Share class	% held by Group companies
Indonesia		
South Quarter Tower B, Lantai 21, Unit E,F,G,H, Jl. R.A., Kartini Kav. 8, RT. 010/RW. 004 Kel. Cilandak Barat, Kec Cilandak, Jakarta Selatan, Indonesia		
PT Calmic Indonesia	Common	100%
PT Rentokil Indonesia	Common	100%
Gedung JDC Lt.6, Jl. Gatot Subroto Kav. 53 Petamburan, Tanah Abang, Jakarta, Pusat, Indonesia		
PT Wesen Indonesia	Ordinary	100%
Italy		
Via Laurentina, km. 26, 500 157 a/c 00071 Pomezia, Italy		
Rentokil Initial Italia SpA	Ordinary	100%
Via A. Grandi 8, 20063 Cernusco sul Naviglio (MI), Italy		
Initial Italia SpA	Ordinary	100%
Jamaica		
8 Terrence Avenue, Kingston 10, Jamaica		
Rentokil Initial (Jamaica) Limited	Ordinary	100%
Jordan		
Amman, Jabal AlHussien, Al Lud Str. 37 – 1st floor, Jordan		
Arena Public Health Co.	Ordinary	100%
Kenya		
Unit 5 Sameer Industrial Park, Road C, Off Enterprise Road Industrial Area, Nairobi, Kenya		
Rentokil Initial Kenya Limited	Ordinary	100%
Lesotho		
No 7 Arrival Centre, Kofi Annan Road, Maseru, Lesotho		
Rentokil Initial Lesotho (Pty) Limited	Ordinary	100%
Libya		
Janzour, Tripoli, Libya		
Rentokil Delta Libya for Environmental Protection JSCO	Ordinary	65%
Lithuania		
A. Smetonos al. 67B, Kaunas 45309, Lithuania		
UAB Dezinfia	Ordinary	100%
Luxembourg		
Rue de la Chapelle 47, 4967 Clemency, Luxembourg		
R-Control Désinfections SA	Ordinary	100%
Rentokil Luxembourg Sarl	Ordinary	100%
Malawi		
Plot No. LE 377, Patridge Avenue, Limbe, PO Box 5135, Malawi		
Rentokil Initial Limited	Ordinary	100%
Malaysia		
Level 8 Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, Petaling Jaya, 47301 Selangor Darul, Selangor, Malaysia		
Rentokil Initial (M) Sdn Bhd	Ordinary	100%
UFTC Sdn Bhd	Ordinary	100%
Martinique		
Soudon, Le Lamentin 97232, Martinique		
Rentokil Initial Martinique Sarl	Ordinary	100%

Company name	Share class	% held by Group companies
Mexico		
Juan Álvarez 482, Centro, 64000 Monterrey, N.L., Mexico		
Balance Urbano Control de Plagas SA de CV	Ordinary	100%
Mozambique		
Avenida da Namaacha, kilometro 6, Residencial Mutateia, Cidade da Matola, Mozambique		
Rentokil Initial Mozambique Limitada	Ordinary	100%
Netherlands		
Impact 6, 6921 RZ Duiven, Netherlands		
Ambius B.V.	Ordinary	100%
Oude Middenweg 75, 2491 AC Den Haag, 1191 BN Ouderkerk, Den Haag, Netherlands		
BET Finance B.V.	Ordinary	100%
BET (Properties) B.V.	Ordinary	100%
Rentokil Initial International B.V.	Ordinary	100%
Riverbank, Meadows Business Park, Blackwater, Camberley, Surrey, GU17 9AB, UK		
Rentokil Initial Overseas (Holdings) B.V.	Ordinary	100%
B.V. Rentokil Funding	Ordinary	100%
Ravenswade 54-s, 3439 Nieuwegein, LD, Netherlands		
Rentokil Initial B.V.	Ordinary	100%
Frontstraat 1a, 5405 AK Uden, Netherlands		
Holland Reconditioning B.V.	Ordinary	100%
Scharenburg 6, 1046 BB Amsterdam, Netherlands		
Medentex B.V.	Ordinary	100%
New Zealand		
Level 1, 89 Carbine Road Mount Wellington, Auckland 1060, New Zealand		
Rentokil Initial Limited	Ordinary	100%
Norway		
Sanitetsveien 17, Postboks 84, SKJETTEN 2026, Norway		
Rentokil Initial Norge AS	Ordinary	100%
People's Republic of China		
Room 103, Building 2, Yuzhongxili#42, Beijing, China		
Rentokil Initial (China) Limited	Ordinary	100%
Philippines		
No. 73 Elisco Road, Bo, Kalawaan, Pasig City 1600, Philippines		
Rentokil Initial (Philippines) Inc	Ordinary	100%
Poland		
Ul. Jana Pawla Woronicza, Nr 31, Lok. 78, 02-640 Warszawa, Poland		
Rentokil Polska Sp. z o.o.	Ordinary	100%
Portugal		
Zona Industrial da Aveleda Park, Rua 1º de Maio, nº 40, 4485 – 010 Aveleda VCD, Portugal		
Cleanstation, S.A.	Ordinary	100%
Complexo Industrial de Vialonga, Fracção C-1 e C-21, Granja Alprate 2626-501, Vialonga, Portugal		
Rentokil Initial Portugal – Serviços de Protecção Ambiental Limitada	Ordinary	100%

Related Undertakings continued

Company name	Share class	% held by Group companies
Puerto Rico		
1125 Berkshire Blvd, Suite 150, Reading, PA 19610, United States		
Rentokil of Puerto Rico, Inc	Common	100%
Republic of Ireland¹		
Hazel House, Millennium Park, Naas, County Kildare W91P XP3, Ireland		
Cannon Hygiene International Limited	Ordinary	100%
Initial Medical Services (Ireland) Limited	Ordinary	100%
Rentokil Initial Limited	Ordinary	100%
RTO Investments (Ireland) Limited	Ordinary	100%
Rentokil Initial Holdings (Ireland) Limited	Ordinary	100%
Saudi Arabia		
PO Box 30164, Office No. 401, 4th Floor, Al Tamimi Building, Al Khobar, North Al Khobar 31952, Saudi Arabia		
Rentokil Saudi Arabia Limited	Ordinary	60%
Singapore		
No. 16 & 18 Jalan Mesin, 368815, Singapore		
Pestterminator Pte Limited	Ordinary	100%
Rentokil Initial Asia Pacific Management Pte Limited	Ordinary	100%
Rentokil Initial Singapore Private Limited	Ordinary	100%
Slovakia		
Kopcianska 10, 851 01 Bratislava, Slovakia		
Rentokil Initial s.r.o.	Ordinary	100%
South Africa		
2 Stignant Road, Claremont 7708, South Africa		
Newsheff 1232 Pty Limited	Preference	100%
Rentokil Initial (Dikapi) JV Pty Limited	Ordinary	59%
Rentokil Initial (Proprietary) Limited	Ordinary	100%
Unit D12 Connaught Park, Riley Road, Beaconsvale, Parow 7000, South Africa		
Cannon Hygiene (SA) Proprietary Limited	Ordinary	100%
South Korea		
2nd Floor, Korea Disaster Relief Association, 371-19 Sinsu-Dong, Mapo-Gu, Seoul 121-856, Republic of Korea		
Rentokil Initial Korea Limited	Common	100%
Spain		
Pol.Ind. San Ginés-C/Europa módulo D7 Parcela 19-5, 30169-Murcia, Spain		
Hisamur, S.L.	Ordinary	100%
Calle Mar Mediterráneo 1, 28830 San Fernando de Henares (Madrid), Spain		
Initial Gaviota SAU	Ordinary	100%
Rentokil Initial España S.A.	Ordinary A	100%
	Ordinary B	100%
	Ordinary C	100%
C/Temple 15 – 28760 Tres Cantos (Madrid) Spain		
Tratamientos Medioambientales Herma, S.L.	Ordinary	100%
Sri Lanka		
No. 186, Vauxhall Street, Colombo 02, Sri Lanka		
Finlay Rentokil Ceylon (Private) Limited	Ordinary	100%

Company name	Share class	% held by Group companies
Swaziland		
Umkhiwa House, Lot 195, Kal Grant Street, Mbabane, Swaziland		
RI Swaziland (Pty) Limited	Ordinary	100%
Sweden		
Avestagatan 61, 163 53 Spånga, Sweden		
Ambius AB	Ordinary	100%
Rentokil AB	Ordinary	100%
Sweden Recycling AB	Ordinary	100%
Rent a Plant Interessenter AB	Ordinary	100%
Verkstadsvägen 3, 24534 Staffanström, Sweden		
PreventIQ AB	Ordinary	100%
Switzerland		
Hauptstrasse 181, 4625 Oberbuchsitzen, Switzerland		
Rentokil Schweiz AG	Ordinary	100%
Bertschenackerstrasse 15, 4104 Oberwil, Switzerland		
Medentex GmbH	Ordinary	100%
Taiwan		
7F No.56 Lane 258, Rueiguang Rd, Neihu District, Taipei, 114 Taiwan, Province of China		
Initial Hygiene Co Limited	Ordinary	100%
Rentokil Ding Sharn Co Limited	Ordinary	100%
Tanzania		
1st Floor, Opal Place, 77 Haile Selassie Road, Masaki, P.O. Box 79651, Dar es Salaam, Tanzania		
Initial Hygiene (T) Limited	Ordinary	100%
Thailand		
160 Vibhavadi Rangsit Road, Khwaeng Dindaeng, Khet Dindaeng, Bangkok 10400, Thailand		
Rentokil Initial (Thailand) Limited	Ordinary	100%
No. 234 Soi Sukhumvit 101 (Punnawithi), Sukhumvit Road, Bangchak Sub-district, Prakanong District, Bangkok, Thailand		
Cannon Pest Management Co. Limited	Ordinary	100%
Trinidad and Tobago		
Field no. 82, KK-LL Aranguez South, Trinidad and Tobago		
Rentokil Initial (Trinidad) Limited	Ordinary	100%
Tunisia		
Zone Industrielle route de Moknine, 5080 Teboulba, Tunisia		
CAP Tunis	Ordinary	100%
Turkey		
1201, 1 Sokak No:2 K:3 D:301-302 Su Plaza Yenisehir, Konak, Izmir, Turkey		
Rentokil Initial Çevre Sağlığı Sistemleri Ticaret ve Sanayi AŞ	Ordinary	100%
United Arab Emirates		
1001 & 1009 Tameem, House Tecom, Dubai, UAE		
Rentokil Initial Pest Control LLC	Ordinary	100%
Office no 523, Oud Metha Office, Oud Metha, Dubai, UAE		
National Pest Control LLC	Ordinary	100%

Company name	Share class	% held by Group companies
United Kingdom		
Riverbank, Meadows Business Park, Blackwater, Camberley, Surrey, GU17 9AB, UK		
Anzak Landscapes Limited	Ordinary	100%
AW Limited	Ordinary	100%
BET Environmental Services Limited	Ordinary	100%
B.E.T. Building Services Limited	Ordinary	100%
BET (No.18) Limited	Ordinary	100%
	Deferred	
	Ordinary	100%
BET (No.68) Limited	Ordinary	100%
BET Pension Trust Limited	Ordinary	100%
BPS Offshore Services Limited ²	Ordinary	100%
Broadcast Relay Service (Overseas) Limited ²	Ordinary	100%
Cannon Hygiene Limited ²	Ordinary	100%
Cannon Hygiene Framework Limited	Ordinary	100%
Castlefield House Limited	Ordinary	100%
Chard Services Limited	Ordinary	100%
Dudley Industries Limited	Ordinary	100%
Enigma Laundries Limited	Ordinary	100%
Enigma Services Group Limited	Ordinary	100%
Environmental Contract Services Limited ²	Ordinary	100%
Enviro-Fresh Limited	Ordinary	100%
Euroguard Technical Services Limited ²	Ordinary	100%
Grayston Central Services Limited	Ordinary	100%
Hometrust Limited	Ordinary	100%
Initial Limited	Ordinary	100%
Initial Medical Services Limited	Ordinary	100%
Opel Transport & Trading Company Limited	Ordinary	100%
Rapid Washrooms Limited ²	Ordinary-A	100%
	Ordinary-B	100%
	Ordinary-C	100%
Peter Cox Limited	Ordinary-A	100%
Plant Nominees Limited	Ordinary	100%
Prokill (UK) Limited	Ordinary-A	100%
	Ordinary-B	100%
	Ordinary-C	100%
	Ordinary-D	100%
Prokill Limited ²	Ordinary-A	100%
	Ordinary-B	100%
	Ordinary-C	100%
	Ordinary-D	100%
Rentokil Dormant (No. 6) Limited	Ordinary	100%
Rentokil Initial (1896) Limited	Ordinary	100%
Rentokil Initial (1993) Limited ²	Ordinary	100%
	6% Non-Redeemable	
	Preference	100%
Rentokil Initial 1927 plc	Ordinary AUD	
	Redeemable	
	Preference	100%
	CAD	
	Redeemable	
	Preference	100%
	CLP	
	Redeemable	
	Preference	100%
	DKK	
	Redeemable	
	Preference	100%

Company name	Share class	% held by Group companies
	EUR	
	Cumulative Preference (Non-Redeemable)	100%
	IDR	
	Redeemable Preference	100%
	NOK	
	Redeemable Preference	100%
	NZD	
	Redeemable Preference	100%
	USD	
	Redeemable Preference	100%
Rentokil Initial Americas Limited ²	Ordinary	100%
Rentokil Initial Asia Pacific Limited ²	Ordinary	100%
Rentokil Initial Brazil Limited ²	Ordinary	100%
Rentokil Initial Finance Limited ²	Ordinary	100%
Rentokil Initial Holdings Limited ²	Ordinary	100%
Rentokil Initial Investments Limited ²	Ordinary	100%
Rentokil Initial Investments South Africa ²	Ordinary	100%
Rentokil Initial Pension Trustee Limited	Ordinary	100%
Rentokil Initial Services Limited	Ordinary	100%
Rentokil Initial UK Limited	Ordinary	100%
Rentokil Insurance Limited	Ordinary	100%
Rentokil Limited ²	Ordinary	100%
Rentokil Overseas Holdings Limited ²	Ordinary	100%
Rentokil Property Care Limited	Ordinary	100%
Rentokil Property Holdings Limited ²	Ordinary	100%
RI Dormant No.18 Limited	Ordinary	100%
RI Dormant No.20 Limited	Ordinary	100%
Stratton House Leasing Limited	Ordinary	100%
Target Express Holdings Limited	Ordinary	100%
Target Express Limited	Ordinary	100%
Target Express Parcels Limited	Ordinary	100%
TEB Cleaning Services Limited	Ordinary	100%
The Ca'D'Oro, 45 Gordon Street, Glasgow, G1 3PE, UK		
RI Dormant No.12 Limited	Ordinary	100%
Industrial Clothing Services Limited	Ordinary	100%
	Convertible Participating Preference	100%
Pest Protection Services (East) Limited	Ordinary	100%
Pest Protection Services (Scotland) Limited ²	Ordinary-A	100%
	Ordinary-B	100%
	Ordinary-C	100%
Wise Property Care Limited	Ordinary	100%
Uganda		
Plot No 2012, Kalinabiri Road, Ntinda Kampala, Uganda		
Rentokil Initial Uganda Limited	Ordinary	100%
United States		
1201 Peachtree Street, NE Suite 1240, Atlanta, GA 30361, United States		
Initial Contract Services LLC	US\$ Interests	100%
The Corporation Trust Company, 1209 Orange Street, Wilmington, DE 19801, United States		
Longgo LLC	Ordinary	100%
Anza LLC	Ordinary	100%

Related Undertakings continued

Company name	Share class	% held by Group companies
United States continued		
1125 Berkshire Blvd, Suite 150, Reading, PA 19610, United States		
Advanced Pest Management of CO, LLC	Common	100%
Medentex LLC	Common	100%
Mississippi Mosquito Control, LLC	Interests	100%
Mosquito Control of Lafourche, LLC	Interests	100%
Mosquito Control Services of Florida, LLC	Interests	100%
Mosquito Control Services of Georgia, LLC	Interests	100%
Mosquito Control Services, L.L.C.	Interests	100%
Residex, LLC	Common	100%
Rentokil Initial Environmental Services LLC	Interests	100%
Rentokil North America, Inc.	Ordinary	100%
Rittiner Group, L.L.C.	Interests	100%
Solitude Lake Management, LLC	Common	100%
St. Charles Mosquito Control, L.L.C.	Interests	100%
St. John Mosquito Control, L.L.C.	Interests	100%
Terrebonne Mosquito Control, LLC	Interests	100%
Vector Disease Acquisition, LLC	Common	100%
	Series A	100%
	Series B	100%
Vector Disease Control International, LLC	Common	100%
2540 Lawrenceville Hwy, Lawrenceville, GA 30055, United States		
United Transport America LLC	Interests	100%
Steritech-Canada Inc.	Common	100%
Virginia Properties Inc	Ordinary	100%
Creative Platings Inc	Ordinary	100%
Rentokil Initial Inc	Common	100%
Asiatic Holdings LLC	Ordinary	100%
116 NW 16th Avenue, Gainesville, FL 32601, United States		
Florida Pest Control & Chemical Co.	Ordinary	100%
PO Box 4510, 10 Free Street, Portland, ME 04112, United States		
Asiatic Investments Inc	Ordinary	100%
Uruguay		
La Paz, 1227, Departamento de Montevideo, Uruguay		
Livelux S.A.	Ordinary	100%
Chana, 2033, Departamento de Montevideo, Uruguay		
La Sanitaria S.A.	Ordinary	100%
Vietnam		
268 To Hien Thanh, Ward 15, District 10, Ho Chi Minh City, Vietnam		
Rentokil Initial (Vietnam) Company Limited	Ordinary	100%

Associated undertakings:

Company name	Share class	% held by Group companies
France		
41 Avenue de La Porte de Villiers, 92200 Neuilly-Sur-Seine, France		
SCI Pierre Brossolette	Ordinary	26.247%
Japan		
Kyoritsu Seiyaku Building, 1-5-10 Kudan, Minami Chiyoda-Ku, Tokyo, Japan		
Nippon Calmic Limited	Ordinary	49%
United Kingdom		
Riverbank, Meadows Business Park, Blackwater, Camberley, Surrey, GU17 9AB, UK		
Torchsound Properties Limited	Ordinary	50%
Hometrust Kitchens Limited	Ordinary	25%

1. As permitted under section 17 of the Companies (Amendment) Act 1986, the Company intends to take advantage of the exemption to file individual accounts for its Irish subsidiary companies listed on page 168.
2. As permitted by section 479A of the Companies Act 2006, the Company intends to take advantage of the audit exemption in relation to the individual accounts of these companies.

Five-Year Summary

	2019 £m	2018 £m	2017 £m	2016 £m	2015 ¹ £m
Revenue from continuing operations	2,714.4	2,472.3	2,412.3	2,168.1	1,759.0
Operating profit from continuing operations	265.6	245.5	292.4	232.4	187.8
Adjusted operating profit from continuing operations	365.4	329.3	314.5	284.4	225.0
Profit/(loss) before income tax from continuing operations	338.5	(114.1)	713.6	208.5	159.0
Profit/(loss) for the year from continuing operations	283.8	(98.3)	683.0	167.8	124.3
Profit/(loss) attributable to equity holders of the Company	283.5	(98.5)	682.8	167.5	124.3
Profit attributable to non-controlling interests	0.3	0.2	0.2	0.3	–
	283.8	(98.3)	683.0	167.8	124.3
Basic earnings per share	15.33p	(5.35)p	37.21p	9.19p	6.83p
Adjusted earnings per share	14.43p	13.07p	12.19p	10.73p	7.98p
Dividends for the period per 1p share	5.15p	4.471p	3.88p	3.37p	2.93p
Gross assets	3,394.4	3,081.5	3,107.7	2,542.8	2,160.8
Gross liabilities	(2,392.1)	(2,248.9)	(2,173.7)	(2,182.1)	(1,948.7)
Net assets	1,002.3	832.6	934.0	360.7	212.1
Share capital	18.5	18.4	18.4	18.3	18.2
Reserves	983.2	813.8	915.3	342.3	194.1
Non-controlling interests	0.6	0.4	0.3	0.1	(0.2)
Capital employed	1,002.3	832.6	934.0	360.7	212.1

1. Prior to 2016 restructuring costs were an adjustment in arriving at adjusted profit. Since 2016 they are no longer adjusted for and 2015 was restated accordingly.

Parent Company Balance Sheet

At 31 December

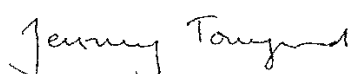
	Notes	2019 £m	2018 ¹ £m
Non-current assets			
Investments	4	280.3	277.6
Debtors – amounts falling due after more than one year	5	2,457.9	2,457.9
Deferred tax assets	6	22.7	13.7
Retirement benefit assets	7	36.6	20.5
Derivative financial instruments	8	7.6	5.4
		2,805.1	2,775.1
Current assets			
Debtors – amounts falling due within one year	5	54.5	54.7
Cash and cash equivalents		154.6	–
Derivative financial instruments	8	0.1	4.2
		209.2	58.9
Current liabilities			
Creditors – amounts falling due within one year	9	(714.6)	(553.1)
Bank and other borrowings ¹	10	(142.9)	(502.3)
Derivative financial instruments	8	(0.4)	(15.8)
		(857.9)	(1,071.2)
Net current liabilities		(648.7)	(1,012.3)
Non-current liabilities			
Bank and other borrowings ¹	10	(1,050.5)	(709.3)
Deferred tax liabilities	6	(12.8)	(7.2)
Derivative financial instruments	8	(32.3)	(16.4)
		(1,095.6)	(732.9)
Net assets		1,060.8	1,029.9
Equity capital and reserves			
Share capital	11	18.5	18.4
Share premium	12	6.8	6.8
Retained earnings		1,035.5	1,004.7
Capital employed		1,060.8	1,029.9

1. Bank and other short/long-term borrowings have been restated at 31 December 2018 to reflect the short-term nature of the September 2019 €500m bond which was classified as long term.

The Financial Statements on pages 172 to 178 were approved by the Board of Directors on 26 February 2020 and were signed on its behalf by:



Andy Ransom
Chief Executive



Jeremy Townsend
Chief Financial Officer

Parent Company Statement of Changes in Equity

For the year ended 31 December

	Called up share capital £m	Share premium account £m	Retained earnings £m	Total equity £m
At 1 January 2018	18.4	6.8	1,269.2	1,294.4
Profit for the year	—	—	(225.1)	(225.1)
Other comprehensive income:				
Remeasurement of net defined benefit asset	—	—	29.5	29.5
Net exchange adjustments offset in reserves	—	—	(0.1)	(0.1)
Movement on cash flow hedge	—	—	9.5	9.5
Tax related to items taken directly to other comprehensive income	—	—	(9.8)	(9.8)
Total comprehensive income for the year	—	—	(196.0)	(196.0)
Transactions with owners:				
Dividends paid to equity shareholders	—	—	(74.2)	(74.2)
Share-based payments charged to profit and loss	—	—	2.3	2.3
Share-based payments debited to investments	—	—	3.4	3.4
At 31 December 2018	18.4	6.8	1,004.7	1,029.9
Profit for the year	—	—	118.3	118.3
Other comprehensive income:				
Remeasurement of net defined benefit asset	—	—	(2.3)	(2.3)
Net exchange adjustments offset in reserves	—	—	(2.4)	(2.4)
Movement on cash flow hedge	—	—	(0.5)	(0.5)
Tax related to items taken directly to other comprehensive income	—	—	0.7	0.7
Total comprehensive income for the year	—	—	113.8	113.8
Transactions with owners:				
Shares issued in the year	0.1	—	(0.1)	—
Dividends paid to equity shareholders	—	—	(85.8)	(85.8)
Share-based payments charged to profit and loss	—	—	2.6	2.6
Share-based payments debited to investments	—	—	2.7	2.7
Tax related to items taken directly to equity	—	—	(2.4)	(2.4)
At 31 December 2019	18.5	6.8	1,035.5	1,060.8

Shares of £0.1m (2018: £0.1m) have been netted against retained earnings. This represents 7.7m (2018: 8.2m) shares held by the Rentokil Initial Employee Share Trust. The market value of these shares at 31 December 2019 was £35.1m (2018: £27.6m). Dividend income from, and voting rights on, the shares held by the Trust have been waived.

Notes to the Parent Company Accounts

1. Accounting convention

The Financial Statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The amendments to FRS 101 (2014/15 Cycle) issued in July 2018 have been applied. The Financial Statements are prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities (including derivatives). No profit and loss account is presented by the Company as permitted by section 408 of the Companies Act 2006. The results of Rentokil Initial plc are included in the Consolidated Financial Statements of Rentokil Initial plc which are presented on pages 122 to 171.

The Company has taken advantage of the following disclosure exemptions under FRS 101, all of which have equivalent disclosures included in the Consolidated Financial Statements:

- the requirements of paragraphs 45(b) and 46–52 of IFRS 2 Share-based Payment;
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91–99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of: (i) paragraph 79(a)(iv) of IAS 1; (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment; (iii) paragraph 118(e) of IAS 38 Intangible Assets; (iv) paragraphs 76 and 79(d) of IAS 40 Investment Property; and (v) paragraph 50 of IAS 41 Agriculture;
- the requirements of paragraphs 10(d), 10(f), 39(c) and 134–136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- the requirements of paragraphs 134(d)–134(f) and 135(c)–135(e) of IAS 36 Impairment of Assets.

2. Principal accounting policies

Judgements and key areas of estimation

The preparation of Financial Statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires the Company's Directors to exercise judgement in applying the Company's accounting policies. The areas where significant judgements and estimates have been made in preparing the Financial Statements and their effect are disclosed in Note 3 and the Consolidated Financial Statements.

Investments

Investments held as fixed assets are stated at cost less provision for any impairment. In the opinion of the Directors, the value of such investments are not less than shown at the balance sheet date.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost (where hedge accounting is not applied); any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has a continuing right to defer settlement of the liability for at least 12 months after the balance sheet date under its committed bank credit facility.

Deferred tax

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax assets/liabilities are settled/recovered.

Financial instruments and risk management

The Company policy in respect of financial instruments and risk management is disclosed in Section C of the Notes to the Consolidated Financial Statements. Disclosures have been made on financial instruments as required by the Companies Act 2006.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity.

Share-based compensation

The Company operates one equity-settled, share-based compensation plan. The economic cost of awarding shares and share options to employees is recognised as an expense in the profit and loss account equivalent to the fair value of the benefit awarded. The fair value of options over the Company's shares awarded to employees of subsidiary companies is treated as a capital contribution, resulting in an increase in investments. The fair value is determined by reference to option pricing models, principally Monte Carlo and adjusted Black-Scholes models. The charge is recognised in the profit and loss account over the vesting period of the award. At each balance sheet date, the Company revises its estimate of the number of options that are expected to become exercisable. Any revision to the original estimates is reflected in the profit and loss account with a corresponding adjustment to equity immediately to the extent it relates to past service and the remainder over the rest of the vesting period.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Financial Statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid. See Note D1 of the Consolidated Financial Statements for details of dividends paid in the year.

3. Critical accounting estimates and judgements

The Company makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are shown below (please refer to the Notes to the Consolidated Financial Statements for further detail). Sensitivities to the estimates and assumptions are provided, where relevant, in the relevant notes to the consolidated accounts.

- ① income taxes and deferred tax asset: key assumptions about the likelihood and magnitude of outflows in relation to tax provisions, and availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilised (Notes A12 and A14)
- ② retirement benefits: key actuarial assumptions and estimates over future costs of winding up the scheme (Note A10 and Note 6)

4. Investments

	2019 £m	2018 £m
At 1 January	277.6	274.2
Share-based payments to employees of subsidiaries	2.7	3.4
At 31 December	280.3	277.6

The Company's sole direct subsidiary undertaking is Rentokil Initial Holdings Ltd. All other indirect subsidiary undertakings are listed on pages 165 to 170.

5. Debtors

	2019 £m	2018 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings (non-interest bearing loans repayable on demand)	51.9	51.9
Other debtors	2.6	2.8
	54.5	54.7
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings (interest bearing loan with effective interest rate of 5%)	2,457.9	2,457.9

6. Deferred taxation

	2019 £m	2018 £m
The deferred tax asset is made up as follows:		
Tax losses	14.4	6.7
Long-term incentive plan	8.3	7.0
	22.7	13.7
The deferred tax liability is made up as follows:		
Defined Benefit Pension Scheme	(12.8)	(7.2)
	(12.8)	(7.2)

Notes to the Parent Company Accounts

continued

7. Pension commitments

At 31 December 2019 the Rentokil Initial 2015 Pension Scheme (RIPS) pension asset amounted to £36.6m (2018: £20.5m). As there is no contractual agreement or stated policy for charging the net defined benefit cost of RIPS to participating entities, the net defined benefit cost is recognised fully by the Company. On 4 December 2018 the Group signed an agreement with Pension Insurance Corporation plc (PIC) to take over the payment of the liabilities in the scheme via a buy-in, which is anticipated to convert to a full buy-out before the end of 2020. For more information on pension commitments and the pension settlement, see Note A10 of the Consolidated Financial Statements.

The movement in the net defined benefit asset for the RIPS pension schemes over the accounting period is as follows:

	Present value of obligation 2019 £m	Fair value of plan assets 2019 £m	Total 2019 £m	Present value of obligation 2018 £m	Fair value of plan assets 2018 £m	Total 2018 £m
At 1 January	(1,277.6)	1,298.1	20.5	(1,360.7)	1,686.1	325.4
Past service cost ¹	—	—	—	(36.1)	—	(36.1)
Settlement of defined benefit obligation ¹	—	17.4	17.4	44.5	(350.0)	(305.5)
Administration expenses ¹	—	—	—	(1.0)	—	(1.0)
Interest on net defined benefit asset ¹	(34.0)	35.0	1.0	(32.6)	39.8	7.2
Total pension income/(expense)	(34.0)	52.4	18.4	(25.2)	(310.2)	(335.4)
Remeasurements:						
– Remeasurement (loss)/gain on scheme assets	—	89.6	89.6	—	(18.6)	(18.6)
– Remeasurement gain on obligation ²	(91.9)	—	(91.9)	48.1	—	48.1
Transfers:						
– Other transfers	—	—	—	(4.0)	4.0	—
Contributions:						
– Benefit payments	70.2	(70.2)	—	63.2	(63.2)	—
– Administration costs	—	—	—	1.0	—	1.0
At 31 December	(1,333.3)	1,369.9	36.6	(1,277.6)	1,298.1	20.5

1. Service costs, settlement and administration expenses are charged to operating expenses, and interest cost and return on plan assets to finance cost and income respectively.

2. The actuarial movement on the UK RIPS comprises remeasurement gain arising from changes in demographic assumptions of £16.5m (2018: remeasurement gain £10.0m), remeasurement loss arising from changes in financial assumptions of £129.3m (2018: gain of £60.1m) and remeasurement gains arising from experience of £20.9m (2018: loss of £22.0m).

8. Derivative financial instruments

	Fair value assets 2019 £m	Fair value assets 2018 £m	Fair value liabilities 2019 £m	Fair value liabilities 2018 £m
Interest rate swaps (level 2):				
– non-hedge	—	4.5	(3.1)	(16.9)
– cash flow hedge	0.1	4.9	(20.5)	—
– net investment hedge	7.6	—	(9.1)	(14.2)
Foreign exchange swaps (level 2):				
– non-hedge	—	0.2	—	(1.1)
	7.7	9.6	(32.7)	(32.2)
Analysed as follows:				
Current portion	0.1	4.2	(0.4)	(15.8)
Non-current portion	7.6	5.4	(32.3)	(16.4)
	7.7	9.6	(32.7)	(32.2)

Cash flow hedge accounting has been applied to derivatives (marked as 'cash flow hedge' in the table above) in accordance with IFRS 9. Where no hedge accounting has been applied, related derivatives have been marked as 'non-hedge'. Any ineffectiveness on the cash flow hedge is taken directly to finance costs. During the year there was a gain of £1.0m (2018: £nil) relating to ineffectiveness of net investment in foreign entity hedges and a loss of £(0.1)m (2018: £nil) from those derivatives in a cash flow hedge relationship. Cash flow hedge accounting has been applied to €67.7m of the €500m 2026 bond, hedging the changes in cash flow due to volatility in the GBP/EUR exchange rate. Cash flow hedge accounting has also been applied to the floating interest of the \$50m term loan maturing in 2020 that has been swapped to a fixed rate.

9. Creditors

	2019 £m	2018 £m
Amounts due to subsidiary undertakings (non-interest bearing loans repayable on demand)	704.4	543.5
Other creditors	10.2	9.6
	714.6	553.1

10. Bank and other borrowings

	2019 £m	2018 ¹ £m
Amounts falling due within one year	142.9	502.3
Amounts falling due after one year	1,050.5	709.3

1. Bank and other short/long-term borrowings have been restated at 31 December 2018 to reflect the short-term nature of the September 2019 €500m bond which was classified as long term.

Current and non-current loans include £4.8m (2018: £6.9m) and £1,050.5m (2018: £1,119.1m) respectively of notes issued under the Company's €2.5bn Euro Medium-Term Note (EMTN) Programme.

Medium-term notes and bond debt comprises:

	Bond interest coupon	Effective hedged interest rate
Non-current		
€350m bond due October 2021	Fixed 3.25%	Fixed 3.54%
€400m bond due November 2024	Fixed 0.95%	Fixed 2.25%
€500m bond due May 2026	Fixed 0.875%	Fixed 1.54%
Average cost of bond debt at year-end rates		2.33%

On 30 May 2019, the Group issued a new €500m bond at a coupon of 0.875% under its EMTN Programme. Some of the proceeds were swapped into US dollars from the issue date until maturity. The rate on this US dollar swap is fixed at 3.16%.

The Group's bank debt comprises:

	Facility amount £m	Drawn at year end £m	Headroom £m	Interest rate at year end %
Non-current				
£550m RCF due August 2024	550.0	–	550.0	0.14
Current				
\$50m term loan due June 2020	37.7	37.7	–	2.17
Average cost of bank debt at year-end rates	587.7	37.7	550.0	0.27

In August 2019 the Group extended its main revolving credit facility (RCF) until August 2024 with a one-year extension option. In November 2019 the amount of the RCF was reduced from £600m to £550m. At the year end the RCF was undrawn.

In addition, the Group has a term loan of \$50m. As at 31 December 2019 this was fully drawn. The effective cost of borrowing on this facility is 2.17%.

11. Share capital

During the year six million new shares were issued in relation to employee share schemes.

	2019 £m	2018 £m
Issued and fully paid:		
At 31 December – 1,849,332,965 shares of 1p each (2018: 1,843,332,965)	18.5	18.4

Notes to the Parent Company Accounts

continued

12. Share premium

	2019 £m	2018 £m
At 1 January and 31 December	6.8	6.8

13. Contingent liabilities

The Company has provided guarantees in respect of bank and other borrowings held by its subsidiary undertakings. In addition, there are contingent liabilities in respect of litigation, pensions and tax, none of which are expected to give rise to any material outflow.

14. Employees

The Company has 11 employees (2018: 9 employees). Details on employee costs are in Note D4 of the Consolidated Financial Statements. Services for finance, taxation, treasury, legal, HR and IT are provided by Rentokil Initial 1927 plc and recharged to the Company.

15. Share-based payments

Share-based payments for the financial period were £5.3m (2018: £5.7m) of which £2.6m (2018: £2.3m) was charged to the profit and loss account and £2.7m (2018: £3.4m) debited to investments. Share options relating to the Board of Directors are disclosed in the Directors' Remuneration Report and detailed share-based payment disclosures are shown in Note A11 of the Consolidated Financial Statements.

16. Related party transactions

The Company has not undertaken any transactions with related parties during the year, other than transactions with wholly owned related parties of Rentokil Initial plc. Such transactions are exempt from disclosure under FRS 101. There were no transactions with non-wholly owned related parties of Rentokil Initial plc.

17. Post balance sheet events

There were no significant post balance sheet events affecting the Company since 31 December 2019.

Directors' Report

The Directors submit their report and audited Financial Statements of the Company and the Group to the members of Rentokil Initial plc (the Company) for the year ended 31 December 2019. Details of the Directors of the Company during 2019 can be found on pages 64 and 65.

The Corporate Governance Report for the year on pages 68 to 111 forms part of the Directors' Report, together with the sections of the Annual Report incorporated by reference.

The Company has chosen to disclose the following information in the Strategic Report on pages 1 to 60 and 118 to 121:

- ❶ particulars of any important events affecting the Company which have occurred since the end of the financial year;
- ❷ an indication of likely future developments in the business of the Company;
- ❸ an indication of the Company's research and development activities (digital technology and innovation solutions are referred to throughout the Strategic Report but particularly on pages 47 and 48);
- ❹ details of our colleagues and human rights (Responsible Business, pages 44 to 54);
- ❺ engagement with colleagues, customers, suppliers and others (pages 22 and 76);
- ❻ information on greenhouse gas emissions and energy use (Responsible Business, page 48); and
- ❼ principal risks and uncertainties (Risks and Uncertainties, pages 55 to 59).

The Strategic Report and the Directors' Report constitute the management report as required under the Disclosure and Transparency Rule 4.1.8R. Information to be disclosed under Listing Rule 9.8.4 in relation to allotment of shares for cash (Listing Rule 9.8.4(7)) and waiver of dividends (Listing Rule 9.8.4(12)) is set out on page 180. No other paragraphs under Listing Rule 9.8.4 apply.

Company constitution

Rentokil Initial plc is a company incorporated in England and Wales, with company number 5393279. The Company is a holding company with limited trading in its own right and with subsidiary undertakings in 75 countries (the Group operates in 81 countries). The Company's related undertakings are listed on pages 165 to 170.

Articles of association

The articles of association set out the internal regulations of the Company and cover such matters as the rights of shareholders, the conduct of the Board and general meetings. The articles themselves may be amended by special resolution of the shareholders.

Amendments to the articles of association have to be approved by at least 75% of the votes cast by those voting in person or by proxy. Subject to company law and the articles of association, the Directors may exercise all the powers of the Company and may delegate authority to Committees and day-to-day management and decision making to individual Executive Directors. The articles of association are available upon request and are displayed on our website at rentokil-initial.com.

Re-election of Directors and service contracts

In accordance with the articles of association, Directors can be appointed by the Board and must be subsequently elected by shareholders at a general meeting. In accordance with the articles of association and the UK Corporate Governance Code 2018 (the Code), Directors submit themselves for re-election annually. Directors can be removed, and their replacements appointed, by shareholders in a general meeting.

Information on our Board of Directors, including their biographical details, and changes during 2019, can be found in the Corporate Governance Report on pages 64 and 65. All Board members will seek re-election at the 2020 Annual General Meeting (AGM), other than Cathy Turner who will stand for election for the first time.

The notice periods given in service contracts are: Andy Ransom, 12 months by either party; Jeremy Townsend, 6 months by the executive and 12 months by the Company; and Richard Solomons, 6 months by either party. Directors' service contracts and the letters of appointment of the Non-Executive Directors are available for inspection at the Company's registered office and the offices of the Company's legal advisors, Freshfields Bruckhaus Deringer LLP, at 65 Fleet Street, London EC4Y 1HS until the conclusion of the AGM and will be available at the AGM which will take place on 13 May 2020. A pro-forma of the Non-Executive Directors' letter of appointment is available on our website.

Directors' powers

Under the articles of association, the Directors are responsible for the management of the business of the Company and may exercise all the powers of the Company subject to the provisions of relevant statutes and the Company's articles of association. For example, the articles contain specific provisions and restrictions regarding the Company's power to borrow money. The articles of association also give power to the Board to appoint and replace Directors as detailed above.

Powers relating to the issuing of shares are also included in the articles of association and such authorities are renewed by shareholders each year at the AGM, as detailed below.

Directors' interests

The beneficial interests of the Directors, including the interests of any connected persons, in the share capital of the Company are shown on page 103. During the year no Director had any material interest in any contract of significance to the Group's business.

Dividend

The Directors have recommended a final dividend of 3.64p per share for the 52 weeks ended 31 December 2019. Payment of this dividend is subject to shareholder approval at the 2020 AGM. Further information on the Company's dividend policy can be found on page 121 and the key dates for the final dividend can be found on page 183.

Share capital

The Company has a premium listing on the London Stock Exchange and an over-the-counter American Depositary Receipt (ADR) listing to facilitate shareholding in the US. All ordinary shares carry the same rights and no shareholder enjoys any preferential rights, regardless of the size of their holding.

The Company's share capital during the year consisted of ordinary shares of 1p each. There were 1,849,332,965 shares in issue at 31 December 2019, which represents 100% of the Company's issued share capital (2018: 1,843,332,965). Each ordinary share (other than treasury shares, which have no voting rights) carries the right to vote at a general meeting of the Company. The Company did not hold any treasury shares between 31 December 2018 and 31 December 2019 and accordingly the Company did not sell any treasury shares. The Company's articles of association provide that on a show of hands, every member who is present in person or by proxy at a general meeting of the Company shall have one vote. On a poll, every member who is present in person or by proxy shall have one vote for every share of which they are a holder.

The articles do not contain special control rights or restrictions on transfer or limitations on the holding of ordinary shares and no requirements for the prior approval of any transfers. No person holds securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

The Company is not directly or indirectly owned or controlled by another corporation or by an individual and there are no arrangements which may at a subsequent date result in a change in control of the Company.

Directors' Report continued

Authority for the Company to allot shares or grant rights to subscribe for shares up to an aggregate nominal amount of £12,328,000 was obtained at the AGM on 8 May 2019. The authority remains in force and approval will be sought from shareholders at the 2020 AGM to renew the authority for a further year.

During the year a total of 6 million ordinary shares with an aggregate nominal value of £60,000 were issued and allotted to Computershare Nominees (Channel Islands) Limited, the account nominee of Computershare Trustees (Jersey) Limited who acts as trustee for the Rentokil Initial Employee Share Trust (the Trustee). These shares were issued to satisfy awards that vested in 2019 under the Company's Performance Share Plan. In addition, the Trustee purchased 114,878 ordinary shares in the Company, with an aggregate nominal value of £1,148.78, with financial assistance from the Company. This represented 40% of the bonus received by our Executive Directors in 2019 and the aggregate amount paid (including fees) was £405,086.13. These shares are held by the trustee to satisfy awards made to our Executive Directors under the Company's Deferred Bonus Plan (see page 99 for more information).

Details of the shares held by the Trustee are contained in the Consolidated Statement of Changes in Equity table on page 124. As at 31 December 2019 the Trustee holds on trust 0.42% of the issued share capital of the Company to satisfy awards that vest under the Company's Performance Share Plan and Deferred Bonus Plan. The Trustee has agreed to waive any right to all dividend payments on shares held by it and the voting rights in relation to these shares are exercised by the Trustee. The Trustee may vote or abstain from voting with the shares or accept or reject any offer relating to the shares, in any way it sees fit, without incurring any liability and without being required to give reasons for its decision.

Repurchase of shares

Authority for the Company to make purchases of its own shares of up to 184,900,000 shares was obtained at the AGM on 8 May 2019 and such authority will be valid until the 2020 AGM. No purchases of its shares were made by the Company during 2019. The authority is normally renewed annually and approval will be sought from shareholders at the 2020 AGM to renew the authority for a further year.

Change of control provisions

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company, such as some financial and commercial agreements and employee long-term incentive or share plans. None of these are deemed to be significant in terms of their potential impact on the Group as a whole. A description of the Group's debt funding arrangements is set out in Note C6 to the Financial Statements. Note C1 describes the change of control provisions relating to the Group's Euro Medium-Term Note Programme.

Substantial shareholders

The Company has been notified pursuant to the Disclosure Guidance and Transparency Rules (DTR 5) that the following shareholders held, or were beneficially interested in, 3% or more of the Company's issued share capital at 31 December 2019. The information provided below was correct at the date of notification; however, this may not have been within the current financial year. It should be noted that these holdings are likely to have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed.

Substantial interests in shares as at 31 December 2019

	%	No. of ordinary shares	Nature of holding
Ameriprise Financial, Inc. ¹	9.99	182,682,307	Indirect
Majedie Asset Management Ltd	5.61	101,963,126	Indirect
The Capital Group Companies, Inc.	5.06	93,388,121	Indirect
BlackRock, Inc.	5.05	93,128,464	Indirect
Schroders plc	4.91	89,878,920	Indirect
Invesco Ltd	4.89	89,477,118	Indirect
Artemis Investment Management LLP	4.80	87,765,202	Direct
AXA SA	4.80	87,093,421	Indirect
Aviva plc and its subsidiaries	4.01	74,130,902	Indirect

1. Ameriprise Financial, Inc. includes Threadneedle Asset Management Holdings Ltd.

Between 31 December 2019 and 26 February 2020 the Company was notified of the following change to the above table.

	%	No. of ordinary shares	Nature of holding
Aviva plc and its subsidiaries	3.95	73,037,639	Indirect

Financial risk management

Details of financial risk management and the relevant policies and certain exposures of the Company are disclosed in Note C1 on pages 152 and 153 of the Financial Statements.

Key contracts

The Group does not have any dominant customer or supplier relationships.

Post balance sheet events

There were no significant post balance sheet events affecting the Group since 31 December 2019.

Political donations

It is the Company's policy not to make payments to political organisations. The Company does however maintain a shareholder authority to make payments of a political nature but does so only in order to ensure that the Company has authority from shareholders for the limited number of activities associated with the operation of the business which might be caught by the broad definition of payments of a political nature contained within current legislation. There were no payments to political organisations during 2019 (2018: £nil).

Equal opportunities

The Company regards equality and fairness as a fundamental right of all of its colleagues. Every colleague is required to support the Company to meet its commitment to provide equal opportunities in employment and avoid unlawful discrimination. People with disabilities should have full and fair consideration for all vacancies, and disability is not seen to be an inhibitor to employment or career development. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Company. In the event of any colleague becoming disabled while with the Company, their needs and abilities would be assessed and, where possible, we would work to retain them and seek to offer alternative employment to them if they were no longer able to continue in their current role.

Engagement with employees, suppliers, customers and others

We have approximately 43,000 colleagues in our workforce. We consider our workforce to be those colleagues who are employed directly by us, and do not include contractors or agency workers in this group. We employ our colleagues directly wherever possible in order to invest in their training, to ensure their full understanding and compliance with our policies including health and safety procedures, to allow them to build relationships with our customers, and to become more efficient. The number of contractors or agency workers throughout the business is not sufficiently material to identify and engage with them as a separate stakeholder group. However, like our colleagues, our contractors and agency workers must operate under our Code of Conduct and we will engage with them wherever practicable.

A summary of the methods we use to engage with our colleagues, including UK employees, suppliers, customers and our other key stakeholders, is provided on pages 22 and 23, while details of Board engagement is provided throughout the Corporate Governance Report, principally on pages 76 and 77. The section 172(1) statement on page 52 provides details of principal decisions taken by the Board during 2019 along with examples of how the Board had regard for stakeholders in its decisions and the effect of that regard. Over 750 managers and experts participate in our Performance Share Plan (see page 92). We do not currently offer an all employee share scheme but will continue to keep this under review.

Branches

The Company, through various subsidiaries, has branches in several different jurisdictions in which the business operates outside the UK.

Directors' indemnity and insurance

The Directors are ultimately responsible for most aspects of the Company's business dealings. They can face significant personal liability under criminal or civil law, or the UK Listing, Prospectus, Disclosure Guidance and Transparency Rules, and can face a range of penalties including censure, fines and imprisonment. The Company considers that it is in its best interests to protect individuals who serve as Directors from the consequences of innocent error or omission, since this enables the Company to continue to attract prudent, appropriately qualified individuals to act as Directors.

The Company maintained at its expense a directors' and officers' liability insurance policy throughout the year to afford an indemnity in certain circumstances for the benefit of Group personnel including, as recommended by the Code, the Directors. This insurance cover remains in place. The policy does not provide cover where the Director or officer has acted fraudulently or dishonestly.

In addition, the Company has granted indemnities in favour of Directors, as permitted by sections 232 to 235 of the Companies Act 2006. In general terms, the indemnities protect Directors to the extent permissible by law from all costs and expenses incurred in the defence of any civil or criminal proceedings in which judgment is given in their favour or the proceedings or otherwise disposed of without finding fault or where there is a successful application to court for relief from liability. The indemnity operates to the extent that the Director is not able to recover the relevant amounts under the Company's directors' and officers' liability insurance.

Related party transactions

Other than in respect of arrangements relating to the employment of Directors, details of which are provided in the Directors' Remuneration Report, or as set out in Note D4 on page 159 of the Financial Statements, which also provides details of transactions with joint ventures and associate entities, there is no indebtedness owed to or by the Company to any colleague or any other person considered to be a related party.

Disclosure of information to the auditor

The Directors confirm that, insofar as each of them is aware, there is no relevant audit information (as defined by section 418(2) of the Companies Act 2006) of which the Company's auditor is unaware; and each Director has taken all of the steps that should have been taken to ensure that they are each aware of any relevant audit information (as defined by section 418(2) of the Companies Act 2006) and to establish that the Company's auditors are aware of that information.

Going concern

The Directors, having made enquiries, consider that the Company and the Group have adequate resources to continue in operation for a period of at least 12 months from the date of approval of these annual Financial Statements. For this reason, they consider it appropriate to adopt the going concern basis in preparing the Financial Statements.

Further details on the Group's net debt, borrowing facilities and financial risk management policies is provided in Section C Financing of the Notes to the Financial Statements on pages 152 to 158.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Parent Company Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. Under that law they are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and applicable law and have elected to prepare the Parent Company Financial Statements in accordance with UK Accounting Standards including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company Financial Statements, the Directors are required to:

- ➊ select suitable accounting policies and then apply them consistently;
- ➋ make judgements and estimates that are reasonable and prudent;
- ➌ for the Group Financial Statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- ➍ for the Parent Company Financial Statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company Financial Statements;
- ➎ assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- ➏ use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Directors' Report continued

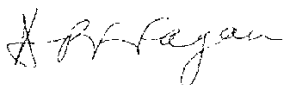
Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are set out on pages 64 and 65, confirms that, to the best of their knowledge:

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Each Director considers the Annual Report and Financial Statements, taken as a whole, to be fair, balanced and understandable and to provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The Directors' Report on pages 68 to 111 and pages 179 to 182 and the Strategic Report on pages 1 to 60 and 118 to 121 were approved by a duly authorised Committee of the Board of Directors on 26 February 2020 and signed on its behalf by Daragh Fagan, the Company Secretary.



Daragh Fagan
Company Secretary

26 February 2020

Registered office:
Riverbank, Meadows Business Park, Blackwater,
Camberley, Surrey, GU17 9AB.
Registered in England and Wales No: 5393279

Additional Shareholder Information

Registrar

The Company's Registrar is Equiniti Limited (Equiniti). All enquiries relating to the administration of shareholdings, dividends, change of address and lost share certificates should be directed to Equiniti. Information and advice can be found on their website.

Contacting Equiniti:

help.shareview.co.uk

0333 207 6581 (+44 (0)121 415 0077 if calling from outside the UK).
Lines are open 8.30am to 5.30pm (UK time), Monday to Friday
(excluding public holidays in England and Wales).
Equiniti, Aspect House, Spencer Road, Lancing, West Sussex,
BN99 6DA, UK.

Shareview Portfolio service

You can manage your shareholding online via Equiniti's Shareview Portfolio at **shareview.co.uk**. This allows shareholders to access a range of information about their shareholdings on registers maintained by Equiniti and includes shareholding details (such as name and address), indicative share prices, recent balance changes and dividend information.

Share dealing services

Equiniti offers shareholders a dealing service which allows you to buy or sell Rentokil Initial plc shares.

shareview.co.uk

0371 384 2233 (+44 (0)121 415 7065 if calling from outside the UK).

Calls are charged at standard national and international rates. Please note that both the internet share dealing and telephone share dealing services are subject to commission charges. Full details can be found on **shareview.co.uk**.

ShareGift

Shareholders with small holdings in shares, whose value makes them uneconomical to sell, may wish to donate them to ShareGift (registered charity no. 1052686).

For further information, contact:

sharegift.org

help@sharegift.org
+44 (0)20 7930 3737
ShareGift, PO Box 72253, London, SW1P 9LQ

Share price information and history

The current price of the Company's shares can be found at **rentokil-initial.com/investors**.

Mid-market price 31 March 1982 – 7.5375p*

* Adjusted for the 1983 bonus issue and the 1990, 1992 and 1997 share splits.

Mid-market price 31 December 2019 – 453.3p

2019 high/low – 467.8p/324.1p

Dividends

2019 final dividend

The Directors have recommended a final dividend of 3.64p per share, for the 52 weeks ended 31 December 2019. Payment of this dividend is subject to approval at the 2020 AGM. When taken with the interim dividend of 1.51p per share paid on 11 September 2019 this gives a total dividend of 5.15p per share (2018: 4.471p).

Key dates relating to this dividend are given below.

Ex-dividend date	9 Apr 2020
Record date	14 Apr 2020
Last day for DRIP elections	28 Apr 2020
Annual General Meeting	13 May 2020
Payment date	20 May 2020

For further dividend information please see page 121 or go to rentokil-initial.com/investors.

Dividend payments

It is important to note that we will no longer be paying dividends by cheque and the final dividend on 20 May 2020, and all subsequent dividends, will be credited directly into a shareholder's UK bank or building society account. Shareholders who historically received dividends by cheque will have received a bank mandate form for completion. For any shareholder who has not submitted their dividend mandate by the deadline of 28 April 2020, cash will be held in an account and they will need to contact our Registrar (see page 182 for contact details) for cash to be distributed to their UK bank or building society account. If you do not have a UK bank or building society account you may be able to arrange for payments to be converted and paid in your local currency. Please contact our Registrar for more information.

Dividend reinvestment plan (DRIP)

The Company has a DRIP provided by Equiniti Financial Services Limited (Equiniti FS), which is a convenient, easy and cost-effective way to build a shareholding by using cash dividends to buy additional shares. Rather than having a bank account credited with a cash dividend, Equiniti FS will use the dividends payable to DRIP participants to purchase shares on your behalf in the market. Please go to shareview.co.uk for further information.

Dividend history

Details of the Company's dividend history can be found on our website at rentokil-initial.com/investors.

American Depositary Receipts (ADR)

The Company has an ADR programme that trades on the over-the-counter market in the United States. This is a sponsored Level 1 ADR programme for which the Bank of New York Mellon acts as depositary. Each ADR is equivalent to five Rentokil Initial plc ordinary shares.

For enquiries relating to ADRs, please contact:

mybnymdr.com
shrrelations@cpushareownerservices.com
 Freephone from the US: +1 888 269 2377
 International calls: +1 201 680 6825
 BNY Mellon Shareowner Services, P.O. Box 30170, College Station, TX 77842-3170, USA.

Exchange: OTC (over the counter)
 Symbol: RTOKY
 CUSIP: 760125104
 Ratio (ADR: Ord) 1:5

Indirect owners of shares with information rights

Please note that beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to Equiniti.

How to avoid share fraud

Reject cold calls: If you've been cold called with an offer to buy or sell shares, the chances are it's a high-risk investment or a scam. You should treat the call with extreme caution. The safest thing to do is to hang up.

Check the firm on the Financial Conduct Authority (FCA) register at fca.org.uk/register. The Financial Services Register is a public record of all the firms and individuals in the financial services industry that are regulated by the FCA.

Get impartial advice: Think about getting impartial financial advice before you hand over any money. Seek advice from someone unconnected to the firm that has approached you.

If you suspect that you have been approached by fraudsters please tell the FCA using the share fraud reporting form at fca.org.uk/scams, where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have lost money to investment fraud, you should report it to **Action Fraud on 0300 123 2040** or online at actionfraud.police.uk.

Find out more at fca.org.uk/scamsmart.

ALWAYS REMEMBER: If it seems too good to be true, it probably is!

Unsolicited mail

The Company is legally obliged to make its register of members available to the public, subject to a proper purpose test. As a consequence of this, some shareholders may receive unsolicited mail. Shareholders wishing to limit the amount of such mail should contact the Mailing Preference Service (MPS) at:

mpsonline.org.uk
 +44 (0)20 7291 3310
 MPS FREEPOST LON20771, London, W1E 0ZT

Annual General Meeting

The AGM will be held in the Ascot Suite at the Hilton London Gatwick Airport, South Terminal Gatwick Airport, Gatwick, RH6 0LL on Wednesday 13 May 2020 at 2.00pm. The Notice of Meeting is available on our website.

Published information

If you would like to receive a hard copy of this Annual Report please contact the Company Secretariat at the Company's registered office below. A PDF copy of this report can also be downloaded from our website.

Registered office and headquarters

Rentokil Initial plc

Registered in England and Wales; Company Number: 5393279

Registered Office: Riverbank, Meadows Business Park, Blackwater, Camberley, Surrey GU17 9AB

rentokil-initial.com
investor@rentokil-initial.com
 +44 (0)1276 607444

Glossary

AER	Actual exchange rates
AGM	Annual General Meeting
APM	Alternative Performance Measure
Benelux	Belgium, the Netherlands and Luxembourg
Board	The Board of Directors of Rentokil Initial plc
BPS	Basis points
CAGR	Compound annual growth rate
CER	Constant exchange rates
CGU	Cash-generating unit
CMA	UK Competition & Markets Authority
Company	Rentokil Initial plc
CVC	Customer Voice Counts
CWS-boco	CWS-boco International GmbH
Director	A Director of Rentokil Initial plc
EBITDA	Earnings before interest, tax, depreciation and amortisation
ELT	Executive Leadership Team
EMTN	Euro Medium-Term Note
ESG	Environmental, social and governance
ETR	Effective Tax Rate
EPS	Earnings per share
FRC	Financial Reporting Council
FRS	Financial Reporting Standards
GAAP	Generally Accepted Accounting Practice
Group	Rentokil Initial plc and its subsidiaries
Growth and Emerging markets	Rentokil Initial defined markets for Pest Control operations (see pages 27 and 29)
Haniel	Franz Haniel & Cie. GmbH
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
ISDA	International Swaps and Derivatives Association
IRR	Internal rate of return
JV	Joint venture
KPI	Key performance indicator
LTA	Lost time accident
LTIP	Long-term incentive plans
M&A	Mergers and acquisitions
MENAT	Middle East, North Africa and Turkey
MPCL	MPCL Ltd (formerly Mitie Pest Control Ltd)
NED	Non-Executive Director
NPS	Net Promoter Score
Parent Company	Rentokil Initial plc
PCI	PCI Pest Control Private Ltd
PDA	Personal digital assistant
PSP	Rentokil Initial plc Performance Share Plan
RCF	Revolving credit facility
R&D	Research and development
RIPS	Rentokil Initial 2015 Pension Scheme
ROU	Right-of-use
SHE	Safety, health and environment
SID	Senior Independent Director
SLF	Senior Leadership Forum
TSR	Total shareholder return
UK & RoW	United Kingdom and Rest of World
WDL	Working days lost
YVC	Your Voice Counts (our colleague engagement survey)

About us

Rentokil Initial is a global leader in the provision of route-based services which protect people and enhance lives. Our services include pest control, hygiene and workwear, as well as a range of other smaller specialist services including plants, medical services, property care and specialist hygiene.

We protect people from the dangers of pest-borne disease and the risks of poor hygiene. We enhance lives with services that protect the health and wellbeing of people, and the reputation of our customers' brands.

Rentokil is the world's leading commercial pest control company and our engine for growth. Initial is a global leader in hygiene services.

We have over 1,800 local service teams across the world covering over 90% of global GDP in over 90 of the world's 100 largest cities across North America, Europe, UK & Rest of World, Asia and the Pacific. Operating in 81 countries, approximately 90% of our revenues are derived from outside of the UK.

We have over a million customers to service from the largest multinational pharmaceutical, industrial and food production companies to local shops, restaurants and homes. With high levels of customer service and retention rates, we continue to build our portfolio.

Find out more at rentokil-initial.com.

Cautionary statement This report contains statements that are, or may be, forward-looking regarding the Group's financial position and results, business strategy, plans and objectives. Such statements involve risk and uncertainty because they relate to future events and circumstances and there are accordingly a number of factors which might cause actual results and performance to differ materially from those expressed or implied by such statements. Forward-looking statements speak only as of the date they are made and no representation or warranty, whether expressed or implied, is given in relation to them, including as to their completeness or accuracy or the basis on which they were prepared. Other than in accordance with the Company's legal or regulatory obligations (including under the Listing Rules and the Disclosure Guidance and Transparency Rules), the Company does not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise. Information contained in this 2019 Annual Report relating to the Company or its share price, or the yield on its shares, should not be relied upon as an indicator of future performance. Nothing in this 2019 Annual Report should be construed as a profit forecast.

Designed and produced by **Friend** www.friendstudio.com

Print **Pureprint Group**

This report has been printed on Amadeus Silk which is FSC® certified and made from 100% Elemental Chlorine Free (ECF) pulp.

The mill and the printer are both certified to ISO 14001 environmental management system. The report was printed using vegetable-based inks by a CarbonNeutral(r) printer.